# HIGH LINER
# DELIVERING WHAT CUSTOMERS WANT
# 2002 ANNUAL REPORT

HIGH LINER FOODS
INCORPORATED

## This Year's Highlights

*(All amounts in thousands except per share amounts)*

| | Fiscal 2002 (1) | Fiscal 2001 (2) |
|---|---|---|
| Sales (2) | **$ 324,458** | $ 299,194 |
| Operating EBITDA (3) | **$ 28,391** | $ 27,632 |
| Net income for the period | **$ 10,242** | $ 6,182 |
| Basic earnings per Common Share based on net income (4) | **$ 0.93** | $ 0.50 |
| Basic earnings per Common Share based on income before goodwill amortization (4) | **$ 0.93** | $ 0.60 |
| Fully diluted earnings per Common Share based on net income (4) | **$ 0.87** | $ 0.48 |
| Total assets | **$ 207,367** | $ 217,870 |
| Shareholders' equity | **$ 89,028** | $ 81,806 |
| Book value per common share | **$ 6.89** | $ 6.17 |

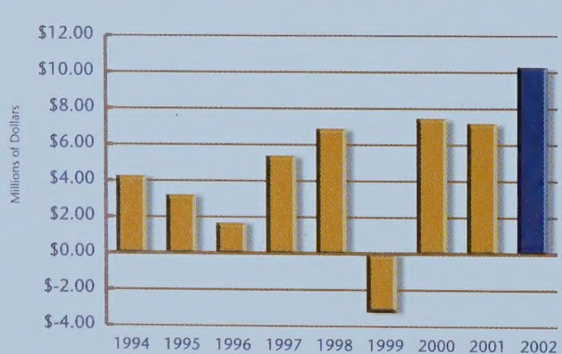
*(1) Fiscal 2002 year end is 52 weeks ended December 28th, 2002 and fiscal 2001 year end is 52 weeks ended December 29th, 2001.*
*(2) In 2002, the Company changed how it accounts for revenue. See note 2 to the financial statements. The change was accounted for retroactively and prior years and quarters were restated.*
*(3) Earnings before interest, taxes, depreciation and amortization, as disclosed on the consolidated statements of income. Operating EBITDA excludes litigation costs.*
*(4) The 2002 earnings per share include $0.22 per share that relate to unusual items. See note 9 to the financial statements.*

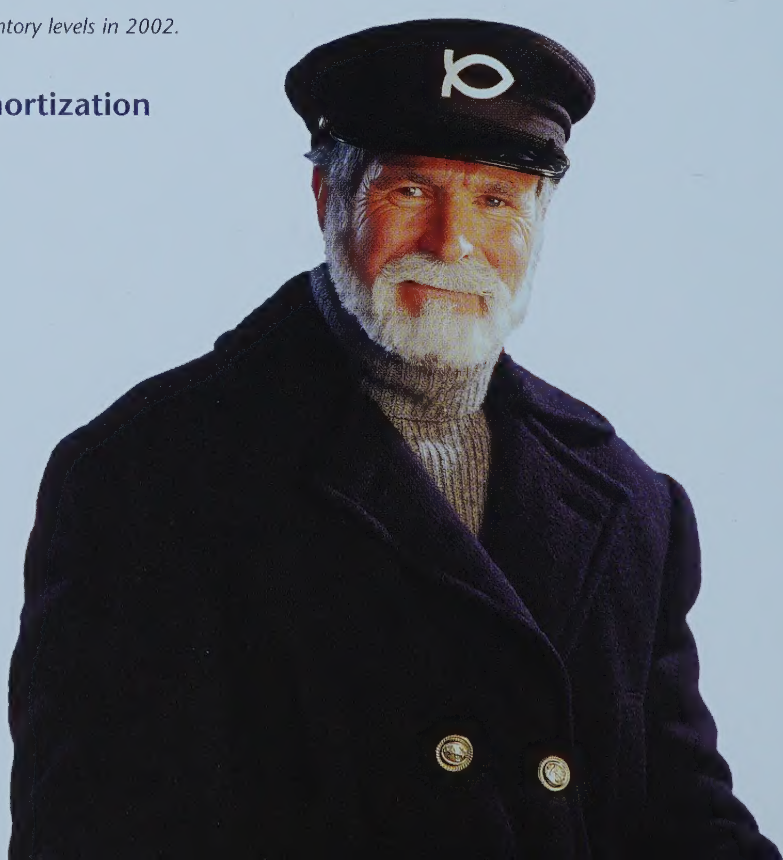
## Nine Year Operating Statistics

| Tonnage (Metric Tonnes) (1) | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|---|---|---|
| Groundfish fleet landings | **6,572** | 7,454 | 8,680 | 7,834 | 10,110 | 6,413 | 8,945 | 7,477 | 11,794 |
| Scallop fleet landings | **1,355** | 1,440 | 1,419 | 852 | 865 | 825 | 663 | 767 | 1,168 |
| Raw uncooked product processing – finished weight | **10,585** | 10,167 | 9,971 | 11,083 | 13,666 | 11,770 | 10,816 | 10,128 | 10,925 |
| Prepared foods processing – finished weight (2) | **36,543** | 38,285 | 33,882 | 33,671 | 35,472 | 35,423 | 33,158 | 29,334 | 29,529 |
| Total production | **47,128** | 48,452 | 43,853 | 44,754 | 49,138 | 47,193 | 43,974 | 39,462 | 40,454 |
| Prepared foods processing as a % of total production | **77.5%** | 79.0% | 77.3% | 75.2% | 72.2% | 75.1% | 75.4% | 74.3% | 73.0% |
| Number of employees | **1,274** | 1,359 | 1,435 | 1,435 | 1,425 | 1,492 | 1,400 | 1,375 | 1,570 |
| Gross capital expenditures ($000) | **$ 4,869** | 6,480 | 5,112 | 5,107 | 7,084 | 6,273 | 2,237 | 4,799 | 5,478 |

*(1) One metric tonne = 2204.6 lbs.*
*(2) Decline from 2001 is due to a concerted effort to reduce inventory levels in 2002.*

## Consolidated Income before Goodwill Amortization



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## 2002 Annual Report

*"I have to say 'Bravo' for your excellent products. Recently, I tried the recipe* for the haddock fillets with butter, lime juice & ginger. Just delicious! My family keeps asking for it every week. ...the Captain's products are the best."*

**Visit www.highliner.com for delicious recipes.* – Fiona Lussier, *Granby, QC*

*Darlene Broome, Product Development Technician*
*Lemon Peppercorn Breaded Sole*

# CORPORATE PROFILE

**High Liner Foods Incorporated is a Canadian publicly traded company. We are a North American supplier of excellent seafood and pasta food products. We process and market leading brands, primarily in the retail grocery channel, and in the food service and club store channels in Canada, Mexico, and the United States.**

## Our Vision

We are the supplier of choice in our target markets by providing innovative, quality products and superior customer service. We develop outstanding employees who achieve results in a safe workplace. We build shareholder value through operational excellence and brand leadership.

## Our Values

**Quality:** We provide products that meet the needs of consumers for taste, value, convenience and nutrition. We make it easy for our customers to do business with us by providing superior service in all areas important to them.

**Integrity:** We build relationships of trust with our customers, suppliers, employees, and other stakeholders by clearly communicating expectations and results. We make promises and commitments we believe we can deliver.

**Involvement:** We believe our employees are able and willing to identify and implement improvement in our business. We work together as a team to achieve our goals.

**Innovation:** We generate growth by developing new products and services to meet the changing needs of our customers, and by constantly looking for better ways to run our business.

Through our vision and our values, we aim to deliver above average returns for our shareholders, relative to comparable food companies.

# CORPORATE GOVERNANCE 2002

**Focus on governance in public companies has never been sharper. We are proud of our approach at High Liner. We are committed to transparency and full, plain and true disclosure. Our 104-year history and our promising future depend on your trust. High Liner has been recognized for our efforts to embrace the spirit, in both word and deed, of good corporate governance (in the 2000 National Post Annual Report Awards). We stay current with corporate governance developments and we are compliant with the TSX Corporate Governance Guidelines.**

High Liner's complete Statement of Corporate Governance Practices is included in the Information Circular of the Company, prepared for the Annual General Meeting of Shareholders to be held on May 1st, 2003 at the World Trade and Convention Centre in Halifax, Nova Scotia. The Circular is dated March 17th, 2003, and is available on the Company's web site at www.highlinerfoods.com. A few highlights here, however, are deserving of mention.

With the exception of Henry Demone, our President and Chief Executive Officer, all directors are unrelated.

Our Audit Committee has a written charter (available on our web site) and is chaired by the Chief Executive Officer of one of Canada's 50 Best Managed Companies (for the 5th consecutive year), a company that was also recently named one of Canada's Top 100 Employers in MacLean's Magazine.

Our Executive Compensation is reviewed and approved by the Human Resources & Corporate Governance Committee of the Board, composed of unrelated directors. Executive Compensation has been under the jurisdiction of this Committee for over a decade.

We have a formal, written disclosure policy (also on our web site). It governs communications with analysts and non-insiders, and contains trading rules, including black-outs and quiet periods.

We broadcast our quarterly earnings calls in an open forum. Any person can listen in by phone or webcast and ask questions of senior management.

We stay ahead of financial reporting and governance developments. Both our Chief Financial Officer and our Corporate Controller are chartered accountants. Because we operate in the United States and Canada, we monitor developments in both countries and strive for "best practice" in both reporting and governance. For example, our 2002 Management Discussion & Analysis, starting on page 13, was prepared in light of both OSC Rule 51-501 and proposed National Instrument 51-102, recent SEC proposals, and the Management Discussion and Analysis: Guidance on Preparation and Disclosure document issued in 2002 by the Canadian Institute of Chartered Accountants.


Our Statement of Corporate Governance Practices included in the 2002 Management Information Circular includes discussion of our governance practices in light of both the current TSX Guidelines and the proposed amendments to those Guidelines published by the TSX in 2002.

We typically do not wait for laws to be passed to do the right thing. We know that building shareholder value depends in large measure on our integrity, and we hope we demonstrate that commitment throughout this Report.

## Delivering What Investors Want

**"At High Liner, we believe our true reason for being is to put delicious, nutritious foods on the table, at a reasonable price, for people and their families to enjoy. If we can satisfy our customers (the retailers) and our consumers (the people who enjoy our foods) we can satisfy our investors, too."**

– Henry Demone, President & C.E.O.

# LETTER TO SHAREHOLDERS

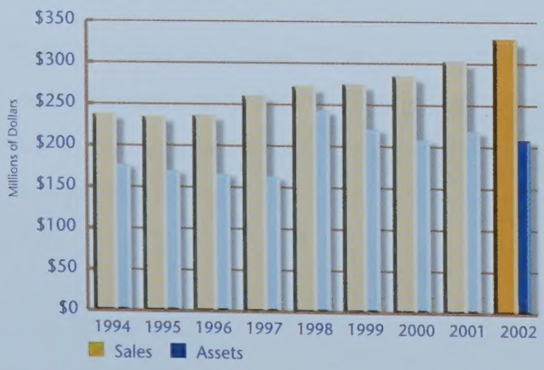
In 2002, we planned for success based on the above belief and enjoyed tremendous results in return. You'll find full details about our achievements elsewhere in this report, but I'd like to share three of the key aspects of our strategy with you here.

## 1. Growth Strategy

We made great strides in our plan to grow in our core markets and in new markets.

**Core markets.** Sales for High Liner® grew in Canada in 2002. We were especially pleased with our Canadian Food Service performance, which exceeded sales expectations in a slow economic year, a time when people typically refrain from dining out. Canadian retail sales increased by 7.1% over 2001, and Food Service sales increased by 5.7%.

*Consolidated Sales and Assets*




In the United States, our Fisher Boy® fish sticks were the Number One selling fish stick in the country, and sales are up over last year. Despite aggressive competition, our Gina Italian Village® frozen pasta remained the leader in its core markets.

***Signature premium products exceeded 2001 sales by 25%.***

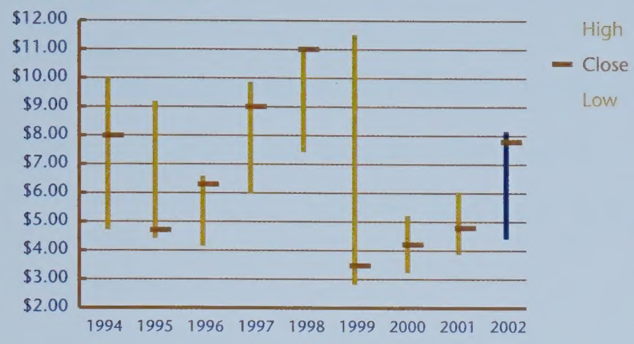
**New markets.** Two years ago, we did not sell products to the United States club store channel, which includes Sam's Club and Costco. In 2002, sales were $33.0 million. This proves that success follows when you deliver what consumers want. United States club store shoppers have above-average incomes and prefer quality, healthful products. Our premium products fit the bill. We are focusing on product development for this channel.

In 2002, Canada became a new pasta market for us, as we launched Italian Village pasta in Ontario. It's already the Number One selling frozen pasta there.

The acquisition of frozen food businesses is also an important part of our long-term growth strategy. We're always looking for businesses that meet our disciplined criteria (details in our 2002 Annual Information Form).

***Seafood is the 3rd largest frozen food category in Canada. We are the leading retail seafood brand and the 7th largest frozen food brand in Canada.***

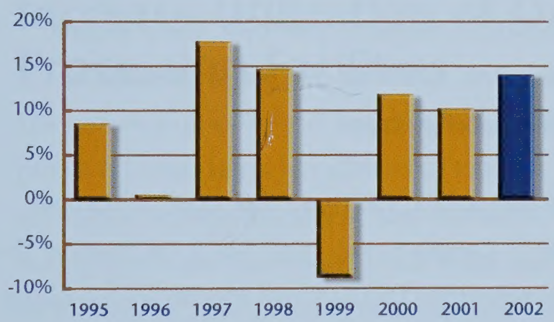
*Common Stock Price*




## 2. Balance Sheet

We are focused on strengthening our balance sheet. Under the direction and planning of Paul Snow, our Vice President Procurement, we reduced inventory levels by $11.0 million in 2002 and increased inventory turns. We also reduced interest-bearing debt by $27.6 million.

*Return on Equity*




## 3. Knowing our Consumers

Before we develop any new product, we ask our consumers what they really want. They tell us they want healthful, delicious food that can be served to the family in 20 minutes or less. All of our product innovations are based on delivering taste, nutrition, convenience and value. The success of our newest products proves we're on the right track.

We demonstrated in 2002 that our strategy is the right one. It will deliver shareholder value based on a fundamentally sound growth proposition.

***Our Investment Proposition:***

- We deliver what consumers want: good-tasting, convenient food that contributes to a healthy lifestyle.
- We deliver strong brands and strong customer relationships, supported with operational excellence.
- We deliver enduring values that have underpinned our strategies for over 100 years.
- We deliver results to position us for profitable growth – our balance sheet is healthy.
- We deliver a strong and committed executive team – representing over 100 years of experience.

***Delivering Value in 2002***

| | |
|---|---|
| Consolidated Net Income | $ 10.2 million |
| Operating Earnings Per Share | $ 0.71 * |
| Gross Sales | $ 324.5 million |
| Operating EBITDA | $ 28.4 million |

**Earnings per share of $0.93 reduced by $0.22 for non-recurring items. See page 13.*

## Strategic Goals for 2003:

1. Increase pre-tax profit margins by 10% over 2002 through operational excellence.
2. Increase sales by up to 10%.
3. Earn a 20% Return On Assets Managed.
4. Grow Gina Italian Village sales and profits over 2002.
5. Develop a business under the High Liner "Signature" brand in United States supermarkets with the products that are so successful in Canada.

All of us at High Liner Foods will be focused on these goals for the year. Our interim reports will communicate details to you about how we are meeting them. As you can see, we look forward to another successful year.

David J. Hennigar
*Chairman of the Board*

Henry E. Demone
*President & Chief Executive Officer*

*"I had the Scallops Mediterranean and it was DELICIOUS... it is really nice to find great products that are quick, and low in fat."*

– Liz Cook, *Lakeville, NB*

*Robert Warner, Manager Product Development*
*Lime Salsa Scallops*

# Goal Check
# 2002 GOALS AND ACHIEVEMENTS

## Delivering Results

**Our decisions in 2002 were based on the Nine Strategic Goals we introduced in our 2001 Annual Report. The results speak for themselves. We'd like to share those results with you, goal by goal.**

### 1. Profit from Industry Consolidation

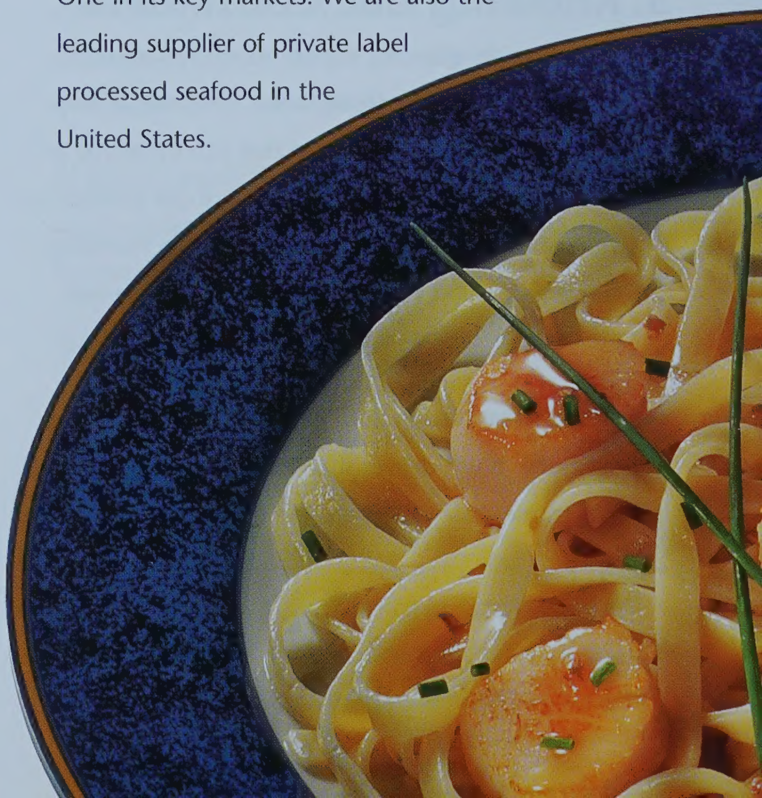
United States retailers continued to consolidate and centralize their operations, particularly buying. In response, we reorganized our United States sales force. Instead of assigning our members a geographic territory, we assigned them to key customers to build strong relationships with customer decision-makers.

Our plan was successful. We added Albertson's and Safeway to our roster of private label clients. We increased Fisher Boy® distribution through Publix and Winn Dixie. We are an important supplier to Wal-Mart®, the number one grocery retailer in the United States. Our sales to Wal-Mart have doubled over 2001 and more than tripled since 2000.

### 2. Be the Number One or Number Two Brand in Our Target Markets

Our target markets for our branded products are North American grocery stores, supermarkets and club stores. We also sell to customers who buy our products to market as their own. These include restaurants, cafeterias, and grocery retailers for private label products.

We are meeting this goal. High Liner® is Number One in Canada by far; Fisher Boy is the Number One fish stick in the United States and we are increasing distribution; and Gina Italian Village® is Number One in its key markets. We are also the leading supplier of private label processed seafood in the United States.



## 3. Be a Customer's Preferred Supplier of Seafood or Frozen Pasta

The secret to our success with this strategy is to deliver on the promises we make to our customers. We make sure we are the best at four key processes:

- Logistics
- Secondary processing
- Trade promotion
- Brand management and consumer marketing

Based on ACNielsen® data, we are Wal-Mart's largest processed seafood supplier. Wal-Mart has the highest standards and expectations for service. Another major private label customer in the United States awarded additional business to us in 2002, making High Liner its exclusive supplier.

## 4. Increase Utilization of Our Processing Facilities

The growth in popularity of our premium quality products in club stores has allowed us to make production improvements that have increased throughput in our Lunenburg, Nova Scotia plant by 24%. Also, our new initiatives in School Food Service, (especially with our Fisher Boy kid-oriented products, ***Confetti Fish Sticks, School o'Fish*** nuggets, and ravioli) are expected to increase production in our United States plants. Increased private label production will add at least 4.0 million pounds of volume to Portsmouth in 2003.

*Confetti Fish Sticks*

## 5. Continue to Grow "Premium Pack" Business

In our packaged foods division, sales increased by 13.5%, and our popular "premium pack" business in Canada led the way with an increase of 25% over 2001. This success is due to our indepth understanding of what today's consumers want, and our product innovations. ***Salmon in a Light Dill Sauce*** continues to be the best-selling product in the entire prepared fillet category in Canada.

***MARKET SHARE NUMBERS***

***12 (13 for the United States) weeks ended:***

| | ***Dec 28, 2002*** | ***Same Period 2001*** |
|---|---|---|
| High Liner (Can) | 46.4% | 43.5% |
| Fisher Boy Fish Sticks (US) | 23.8% | 22.4% |
| Gina Italian Village (NY) | 31.6% | 39.5% |

*"My husband and I wanted to applaud you on the product 'Mussels in Garlic Butter.' We have found this to be a great product. Easy to do, just pop in microwave 5 minutes and done. Great meal for on-the-go people."*

– Todd and Janell Nason, *Harvey Station, NB*

*Robert Warner, Manager Product Development*
*Stuffed Sole Primavera*

## 6. Invest in New Product Development

New products in all our packaged foods divisions have been driving our success. Some of those new products include ***Salmon in a Roasted Garlic & Herb Sauce***, developed for our premium "Signature" line, ***Flavoured Breaded Sole Fillets***, for our traditional breaded and battered line, ***Grilled Cod Fillets*** and ***Breaded and Grilled Premium Scallops*** for our club store channels.

Innovations for our Fisher Boy line, now repositioned as a kid's brand, include ***Confetti Fish Sticks*** with coloured (but not sweet) sprinkles in the breading, and ***School o'Fish*** breaded fish shapes.


We've also created new products for our Food Service customers, such as ***Light Tonight Salmon*** and new stir-fry kits for M&M Meat Shops. Our ***Atlantic Salmon Portions*** for the Food Service division won a 2002 Grand Prix award from the Canadian Council of Grocery Distributors.

## 7. Build our Targeted United States Food Service and Club Store Divisions

Growth in the club store area is exceeding expectations. There is no question that we will meet aggressive growth targets for this business by the end of 2004.

We implemented a United States School Food Service strategy in 2002 and developed products for this niche market throughout the year. Our products are ideally suited to this specialized market, and some of our products will carry United States Department of Commerce Child Nutrition labelling. We began shipping in this channel late in 2002.

# 8. Be the North American Frozen Pasta Leader

Gina Italian Village, our frozen pasta brand, is the Number One frozen pasta in its core market of New York City. As we noted throughout the year, we encountered stiff competition in 2002, and our efforts have been hampered by the absence of a national "category leader." However, we will turn things around in 2003, as we leverage our advantage as low cost producer. We will also introduce a premium line – "Villa Prima" – focused on the same type of consumers who purchase our "Signature" seafood.

This year we introduced Italian Village to Canadians – launching it in Ontario with four different varieties: ***Four Cheese Ravioli, Four Cheese Tortellini, Garlic Herb Cheese Ravioli*** and ***Garlic Beef Ravioli***. Success was immediate. Italian Village is already the Number One selling frozen pasta in this market.

In 2003, we will be expanding this success story as we take Italian Village to Western Canada.

# 9. Reach Acceptable ROAM (Return On Assets Managed) and Grow Sales in Every Business

**ROAM:**

With one exception, we are striding towards achieving our goal of 20.0% ROAM. The following tactics improved ROAM to 15.0% in 2002:


- Targeting club store and food service channels to utilize production capacity.
- Growing sales in Canadian retail without increasing overhead costs.
- Closing Lunenburg wetfish operations.

The ROAM in our wetfish processing division in Lunenburg has not been acceptable for some time, and there was no realistic promise of achieving acceptable returns in the future. Therefore, we closed this division on December 20th, 2002. The elimination of these operating losses will increase earnings in 2003 and beyond by at least $1.5 million annually. It will also free up capacity for our growing secondary processing business. The decision contributed $0.17 earnings per share in 2002 on an after-tax basis.

In 2003, we aim to reach the 20.0% target by tackling these outstanding challenges:

- Regaining Gina Italian Village New York market share and increasing sales.
- Achieving the estimated annual $1.5 million increase in earnings before taxes from closing Lunenburg wetfish operations.
- Operating our primary processing plant in Arnold's Cove profitably.

***"I just wanted to say how much my family enjoys this product (Signature Salmon in a Light Dill Sauce)... It is so nice to have a healthy choice for 'fast food'... Thank you again for such a wonderful, great tasting fish dish; it will be a regular in our household."*** – Janine Migneault, *Victoria, BC*

*Victoria Penney, Food Scientist*
*Roasted Garlic and Herb Salmon*

**Sales:**

- Canadian Food Service: Sales are 5.7% higher than in 2001.
- Canadian Retail: Sales up 7.1% over 2001; Signature products up by 25.0%; seafood department products up by 83.1% over 2001, proving it paid to move beyond the frozen food aisles.
- United States Retail: Sales are up slightly over 2001; market share in fish sticks is up significantly, 23.8% nationally.
- Gina Italian Village: Our only disappointment. We lost market share over 2001 due to fierce price wars in New York City and the lack of a truly strong national brand for category leadership.


- United States Private Label: We have an estimated 75.0% market share of processed seafood in United States. While sales are slightly behind 2001, late in 2002 and early in 2003 we have picked up new accounts and increased business significantly with a major customer, becoming its exclusive supplier. We added 4.0 million pounds of production to our Portsmouth plant.

The planning for success continues. Please read the *Letter to Shareholders* for 2003's goals on page 6.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF 2002 RESULTS

## Delivering the Details

**Welcome to our Management's Discussion and Analysis of results for 2002. You'll notice a few changes from last year. We no longer segment our business geographically. As we explained in our Interim Report to Shareholders for the second quarter of 2002, we now segment by two main lines of business: Packaged Foods and Fishing. You'll also notice that we've combined the Report on Operations with the MD&A, to avoid repetition.**

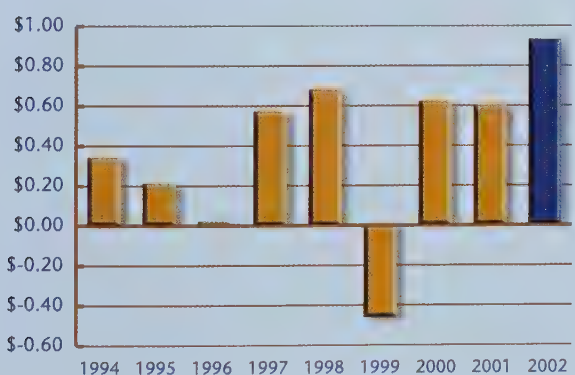
This section should be read together with the consolidated financial statements and related notes that start on page 26. All amounts are in Canadian dollars unless otherwise indicated.

This year, we also changed our accounting for revenue to adopt new United States accounting pronouncements that are also generally accepted accounting principles in Canada. See page 21 of this report for more details.

## Overview

In 2002, High Liner Foods focused on delivering on the strategic goals we outlined in last year's report. Thanks to our diligent execution of those plans, the year was a tremendous success.

***Per Share Data*** *(in dollars)*
*Earnings per common share before amortization of goodwill*



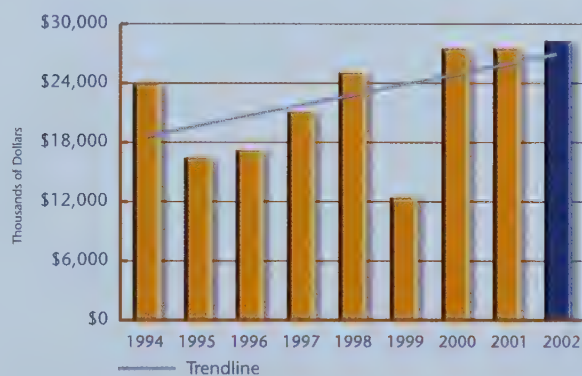

## Net Income

Net income in 2002 increased to $10.2 million ($0.93 per share) from $6.2 million ($0.50 per share) in 2001. Excluding the gains made on the closure of the Lunenburg operations and recovery from escrow, earnings per share in 2002 are $0.71. This compares with earnings per share prior to goodwill amortization of $0.60 in 2001, or $0.50 after goodwill amortization.

## Consolidated Sales

Our Packaged Foods division achieved a 13.5% net sales increase. This division is the driver of our 8.4% increase in consolidated sales. Our Fishing division's sales to external customers in 2002 decreased over 2001. Fresh fish sales decreased by approximately $3.6 million due to several factors discussed later in this section. In addition, we redirected much of our frozen cod and scallop production to our own Packaged Foods division.

***9 year Operating EBITDA*** *($000)*



## EBITDA

Our consolidated Operating EBITDA[1] in 2002 was $28.4 million, up slightly from $27.6 million in fiscal 2001.

We saw increases from Canadian Retail, Canadian Food Service, Fisher Boy and United States club stores, but these were offset by a decrease in Gina Italian Village in the United States and higher incentive (profit sharing) costs than in 2001. Our Fishing division increased its Operating EBITDA by $0.9 million due to higher selling prices for scallops, offsetting lower landings. Operating EBITDA for 2003 is expected to increase as we continue to expand distribution for existing products and launch new products.

# Results of Operations

*Packaged Foods Segment*


## Packaged Foods

Our Packaged Foods division produces frozen foods sold under our own brands at retail and club stores, to the Food Service industry, and to stores for their private label selections.

The Canadian Retail and Food Service businesses are headquartered in Toronto and sell High Liner products throughout Canada. Italian Village products are also sold in Ontario.

The United States operation is headquartered in Portsmouth, New Hampshire. It produces seafood products sold under our Fisher Boy and High Liner brands, Italian-style frozen pasta under our Gina Itallian Village and Floresta brands, and a variety of private labels throughout the United States and Mexico.

Our foods are processed at our plants in Lunenburg, Nova Scotia; Arnold's Cove, Newfoundland; Portsmouth, New Hamsphire and Secaucus, New Jersey.

### Sales

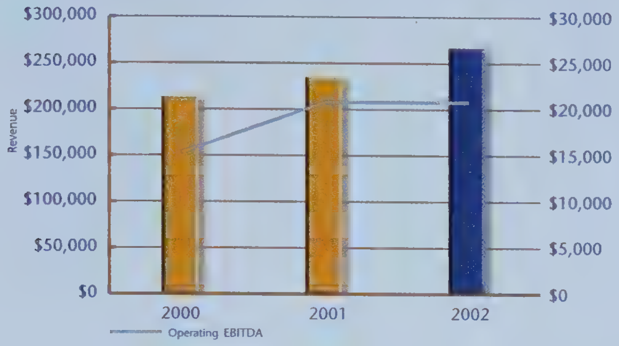
Packaged Foods, accounting for 82.2% of our sales, is driving sales increases. During 2002, this division achieved a 13.5% net sales increase. This increase is due to our expansion into United States club stores, the success of our premium quality products in Canada and increases in Canadian Food Service.

### Operating EBITDA

Operating EBITDA in the Packaged Foods division is $21.0 million in 2002. Operating EBITDA increased, in part, due to a price increase in the Canadian retail market for part of 2002. As well, the purchase price for certain seafood raw material and finished goods was lower than it was in 2001. Additional United States club store sales also increased operating EBITDA. Fisher Boy, despite no material change in sales, achieved better operating results due to better managed promotions during 2002. All of this was largely offset by deteriorated performance for Gina Italian Village in the United States due to lower sales than in 2001, and higher costs for scallops that were procured from our Fishing division. As a result, Operating EBITDA remained unchanged from 2001.

*1 Earnings before interest, taxes, depreciation and amortization, and litigation costs as disclosed on the consolidated statements of income. Management believes that this is a useful performance measure as it approximates cash generated from operations and excludes unusual items. Operating EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. However, Operating EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by others. Operating EBITDA has been calculated and presented in a manner consistent with prior years, with the following exception. Litigation costs were previously deducted in arriving at Operating EBITDA. They have now been excluded and comparatives are restated to reflect this change.*

*Packaged Foods Segment*
*– Three Year Revenue and Operating EBITDA ($000)*




**High Liner® – Canadian Retail**

High Liner Foods is the leading seafood company in Canada, with distribution in practically every grocery store in the country. High Liner is one of the best-known brands in Canada.

Canadian retail sales in 2002 increased by 7.1% over 2001.

*Signature*

A large part of this increase is driven by our popular premium packs, which we recently sub-branded Signature. Sales of Signature products grew by 25.0% over 2001, due to our innovative product development. We ask our consumers what they want, then we create and deliver it. Our salmon products are a perfect example of this. Five years ago, we did not sell salmon, but consumers told us they loved the taste. We saw a growth opportunity, and developed products to meet expectations.

Signature's award winning ***Salmon Fillets in a Light Dill Sauce*** continues to be the best selling product in the prepared fillet category for the 52-week period ended December 28th, 2002. In the third quarter of 2002, we launched a new Signature product, ***Salmon Fillets in a Roasted Garlic and Herb Sauce***, which is expected to generate additional sales and profit in the near future.

*Seafood Department*

High Liner's seafood department sales grew by 83.1% in 2002 over 2001. Two years ago, we started selling High Liner products in the seafood department of Canadian grocery stores. These products include individually quick-frozen sole and Alaskan pollock fillets, frozen-at-sea scallops and microwaveable mussels in sauce. By selling these products in the seafood department, rather than in regular frozen food aisles, we are able to increase sales and profit with minimal impact on sales of our other products.

*Breaded/Battered*

Sales for 500g products, part of our line of "Family Packs," our traditional breaded and battered seafood products, are higher than they were in 2001. Canadian retail had struggled with volume declines on "Family Packs" in the past few years. However, we turned things around by successfully launching ***Flavoured Breaded Sole Fillets*** earlier this year, and focusing on consumer promotion. New promotions in stores early in 2003 include a certificate for a free bowling game in each pack.


High Liner's Canadian market share[2] for the 52-week period ended December 28th, 2002 was 45.5%, unchanged from the comparable period in 2001. However, for the 12-week period ended December 28th, 2002, High Liner's Canadian market share[2] was 46.4%, an increase of 2.9 share points from the comparable period in 2001. We expect continued strong performance for the High Liner brand in Canada.

**High Liner – Canadian Food Service**

The High Liner brand is sold to food service operators in Canada for restaurants and cafeterias. Food Service division sales in 2002 were 5.7% higher than 2001. This is a respectable increase, given that the increase in total Food Service sales in 2003 is estimated to grow by less than 1.0% after inflation. Food service fortunes are always tied to the economy. If the economy slows down, so does consumer spending

*2 Market share is estimated by ACNielsen®, which tracks all Canadian basic grocery banner stores, excluding club stores/warehouses, and is measured in pounds. The category reported here is total frozen fish, which excludes all shellfish and entrees.*

on meals outside of the home. We weathered 2002 exceptionally well.

We can credit part of this success to new products launched in 2002, including ***Atlantic Salmon*** portions, ***Creamy Dill Salmon***, and ***Mussels in Garlic Butter***. We knew these products were popular in grocery stores, so we found new markets for them in the food service channel. The ***Atlantic Salmon*** portions are a vacuum-packed, high-quality product, recognized early in 2003 with a Grand Prix award from the Canadian Council of Grocery Distributors.

Food Service also obtained additional distribution for its products in 2002, primarily to multi-unit chain establishments, such as Kelseys International (which includes Outback Steakhouse), KFC, East Side Marios, Compass Group and Aramark Canada.

In 2003, Canadian Food Service will continue to focus on product innovation for national and multi-national chain accounts to increase sales and distribution.

### High Liner – United States Distribution

#### *Club Stores*

We introduced High Liner into the United States in late 2001, primarily to two large club store chains. To date, growth has been exceptional. In little more than a year, High Liner has substantially increased its presence in the United States.

Products sold to United States club stores are similar to the premium quality Signature products that are so successful in Canada. United States club store shoppers are generally above-average income earners and prefer high-quality healthful products. High Liner delivers what they want.

#### *Grocery Stores*

High Liner branded products are also sold in small quantities at high-end grocery stores in the United States. Sales of these products are expected to increase in 2003, as we focus on increasing distribution.

### United States Private Label

Private label products are packed under a store's own brand to their specifications. High Liner is the leading producer of private label processed seafood, with an estimated 75.0% share of that business in the United States. We are also a leading packer of private labels in Canada. We are cost competitive with all other private label suppliers. We compare our products regularly to national brands to ensure we offer innovative products to retailers. We also keep track of what the private label consumer wants. This information benefits both the private label customers and our own brands, as it allows us to tailor our seafood marketing and product development.

Private label seafood sales are down from 2001 due to the loss of a portion of business from a large private label customer early in the year. However, we secured new private label business in late 2002 and early 2003, and we obtained additional business from an existing customer, becoming its exclusive supplier. Consequently, this division is well positioned for growth in 2003.

### Fisher Boy®

Fisher Boy is a major competitor in the fish stick category in the United States. According to


ACNielsen®, Fisher Boy's fish sticks are the United States' fastest-selling fish stick (based on pounds for the 52 weeks ended December 28th, 2002). Fisher Boy has one of the highest consumer brand loyalty ratings.

Sales of frozen seafood are going up in the United States. According to ACNeilsen, supermarket sales of frozen seafood were up 12.9% in dollar sales and 9.2% in units (52-weeks ended December 28th, 2002). The catalyst for this change is the baby boom generation that has taken a renewed interest

in health and regards seafood as an excellent, nutritious choice.

Fisher Boy is building on this popularity with a renewed marketing focus on households with kids. These households consume almost 50% more frozen, breaded seafood than the average United States household. And Fisher Boy households do even better, consuming 25% more frozen seafood than the typical frozen seafood household.

This is one of the reasons why we recently repositioned Fisher Boy from a family-based product to a kid's product – calling it "the reliable seafood brand that moms buy for kids, yet serve to the whole family." Packaging and promotional materials have been redesigned to emphasize kids and fun. New Fisher Boy products directly aimed at young children are being launched, including ***Confetti Fish Sticks***, (fish sticks sprinkled with colourful-but-not-sweet sprinkles), and ***School o'Fish*** (fish-shaped fish nuggets). ***School o'Fish*** carries USDC's Child Nutrition labelling.


*School o'Fish*

The brand strategy is working. Fisher Boy is the brand of choice for families with young children.

We also repositioned Fisher Boy to develop a national product carried by more stores. Most retailers carry a national brand, a store brand, and a third brand, if it is differentiated enough from the national brand. Our repositioned Fisher Boy is now more strongly differentiated from its competition. While the national brands focus on everyone, we will focus on kids. Increased sales are expected from Fisher Boy in 2003 as new distribution has been picked up since year end.

Fisher Boy's market share[3] for total seafood for the 52-week period ended December 28th, 2002 was 4.9%, down from 5.1% last year. The decrease in market share was planned, as we reduced some non-profitable promotions on Fisher Boy sticks and exited the uncoated fillet business at Wal-Mart. While Fisher Boy's market share in the total frozen seafood category is decreasing marginally, in the fish stick category it is achieving significant market share increases. For the 52-week period ended December 28th, 2002, Fisher Boy's fish stick market share[4] increased 2.0 share points to 23.9% and this strong performance is expected to continue, making Fisher Boy the leading brand of fish sticks in the United States during 2002.

### Gina Italian Village®

*United States*

2002 was a challenging year for Gina Italian Village in the United States.

In late 2001, Gina Italian Village lost distribution due to consolidation when a customer dropped our line at three divisions. This resulted in overall lower sales throughout 2002.

During the first quarter, an important New York customer did not promote frozen pasta. Consequently, Gina Italian Village sales in this key market did not increase over the same quarter last year.

Sales in the second quarter were lower than the same period in 2001 due to aggressive distribution and pricing by small pasta suppliers in New York City. Their products were being sold at unprecedented low

3 *Market share is estimated by ACNielsen®, which tracks all grocery stores with sales of US$2.0 million or more and is measured in pounds. The category reported here is for all types of frozen seafood including fish and shellfish, whether breaded or unbreaded, but excludes seafood entrees.*

4 *Market share is estimated by ACNielsen®, which tracks all grocery stores with sales of US$2.0 million or more and is measured in pounds. The category reported here is fish sticks only.*

prices at a time when we were increasing our selling prices in New York.

Gina Italian Village's national market share[5] decreased to 12.2% for the 52-week period ended December 28, 2002 from 15.5 % last year. As well, Gina Italian Village's New York market share for the same period dropped by 4.9 share points to 26.1%.

To address the sales and resultant market share reductions in New York, we reverted back in mid-2002 to the strategy we employed in 2001, to be the low-cost, value brand. We are confident our new strategy will succeed, but it has not yet been reflected in market share results.

To further increase sales and profitability, we will launch a premium Gina Italian Village sub-brand, Villa Prima™, in New York in 2003. This will be a higher quality product, featuring innovative flavours and selling at a higher price.

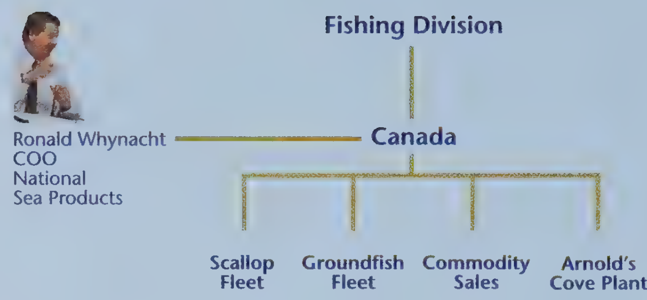
### *Canada*

The story was very different for Italian Village in Canada. In 2002, we introduced this brand to Ontario with four new products: ***Four Cheese Ravioli, Four Cheese Tortellini, Garlic Herb Cheese Ravioli,*** and ***Garlic Beef Ravioli.***

Italian Village is already the Number One selling frozen pasta in this market.


This successful launch added to sales, which were offset by expected initial listing and promotional costs. Profitability will increase in 2003 as the launch costs incurred in 2002 will not be repeated. We will also be launching Italian Village products in Western Canada early in 2003. Increased profitability in Ontario will more than offset the launch costs in Western Canada.

### *Fishing Segment*




## Fishing Division

Our Fishing division harvests, procures and processes seafood. This division includes our groundfish and scallop fleets, which are based in Lunenburg, Nova Scotia, and our primary processing plant, in Arnold's Cove, Newfoundland.

The Fishing division sells its products, both fresh and frozen, to markets in Canada, the United States, and Europe. In 2002, approximately 45% of its product was sold as raw material or finished goods to our Packaged Foods division.

Fishing division sales to external customers for 2002 are $57.8 million compared with $64.3 million for 2001. Fresh fish sales decreased by approximately $3.6 million to $21.2 million. This was due to several factors. Cod and ocean perch landings were lower in volume. An increase of sales of steelhead trout marketed for Atlantic Canada aquaculture operators partially offset this decrease. In addition, we redirected much of our frozen cod and scallop production to our own Packaged Foods division.

### Operating EBITDA

Operating EBITDA in the Fishing division is $7.5 million in 2002, up from $6.6 in 2001.

Harvesting and selling scallops added to our Fishing division's sales and profitability. Selling prices in 2002

5 *Market share is estimated by ACNielsen®, which tracks all grocery stores with sales of US$2.0 million or more and is measured in pounds. The frozen pasta category reported here is frozen unsauced pasta, which includes ravioli, tortellini, stuffed shells, manicotti, gnocchi and cavatelli but excludes perrogies, frozen egg noodles and pasta entrees.*

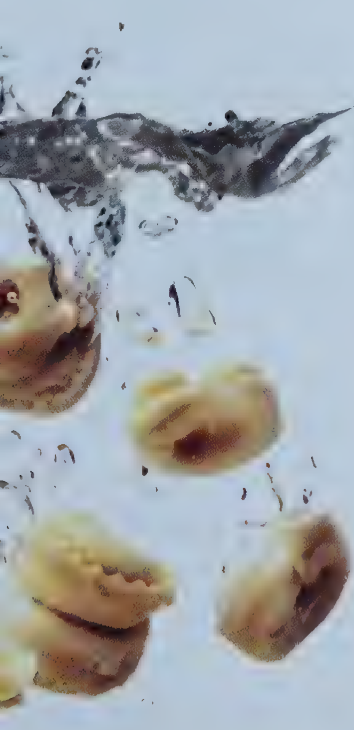
were, on average, higher than in 2001. In particular, the price for fresh scallops in late 2002 was especially higher than the price available in late 2001. However, we sold less fresh scallops to external customers in 2002 than in 2001, due to selling scallops to our Packaged Foods division and lower landings.

As mentioned, we redirected much of our cod and scallops to our Packaged Foods division in 2002 and, as a result, sales to Packaged Foods increased. The Fishing division was kept busy producing uncoated cod fillet and scallop products to meet United States club store demands.

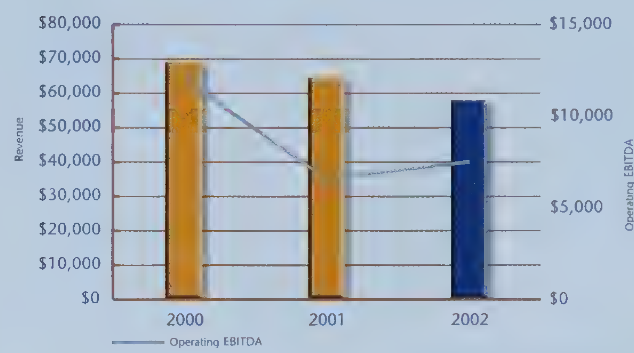
We operated the Arnold's Cove facility at full capacity in 2002 to satisfy strong demands for products. This allowed the plant to reduce its production costs and losses. The plant was for sale for more than a year. However, we had no buyer, and the plant will continue to operate at full capacity throughout 2003. The Company is working on a long-term plan to achieve higher returns for this business.

### *Wetfish Closure*

The division also included a wetfish operations plant located in Lunenburg that we closed at the end of 2002. Over the past few years, we struggled with competitive challenges facing the Lunenburg operations. After considering all alternatives, we concluded that closure was the best option. This decision will strengthen our secondary processing operations (located in the same building) by providing more capacity to meet increasing demand for High Liner Packaged Foods products.



***Fishing Segment***
***– Three Year Revenue and Operating EBITDA** (\$000)*




### *Landings*

Lower scallop quotas are expected in 2003. Scallop harvesting costs will rise, on a per pound basis, as certain costs are fixed in nature. As costs such as fuel rise and landings decrease, we expect lower profitability from this division in 2003. Also, up to the end of 2002, our premium priced frozen-at-sea scallop business was essentially unchallenged. This will change in 2003, as two of our Atlantic Canadian scallop harvesting competitors took delivery of new freezer trawlers. These companies began to land significant frozen-at-sea quantities late in the year. This increased competition is expected to result in lower frozen-at-sea selling prices in 2003, which will further reduce profitability. One of these competitors will be taking delivery of a second freezer trawler in 2003.

With the closure of the Lunenburg wetfish operations, groundfish previously landed and processed in this facility will now be sold to independent processors in Nova Scotia. This fish will be sold in its round state for the market value at the time of landing. Groundfish landings in 2003 are expected to be 8.0% higher than in 2002.

### Outlook

The outlook for 2003 for our Fishing division is expected to be reduced sales and operating EBITDA, primarily due to expected lower scallop landings and sales. This will be partially offset by the elimination of losses that the Lunenburg wetfish processing facility incurred in 2002.

## Litigation Costs

As reported previously, we instituted legal action in 1998 against the previous owners of the Gina Italian Village business. We remain confident in the merits of our claims. More details can be found in note 16, *Contingencies*, to the financial statements.

During 2002, we incurred costs of \$2.7 million relating to this litigation. This cost is similar to that incurred during 2001. Litigation costs for 2003 are expected to be similar or less than those of 2002.


## Interest

Interest expense in 2002 decreased \$1.1 million over 2001. This occurred due to lower interest rates and the reduction in debt due to positive operating results and better management of working capital. On November 30th, 2002, we made the second of five equal annual repayments of principal on our primary long-term debt.

Interest expense in 2003 is expected to be lower than in 2002 due to lower interest rates and lower average balances outstanding on our debt as we apply profits to reduce our debt.

## Other Income

We closed our Lunenburg wetfish processing operations in the fourth quarter of 2002 and sold some redundant assets, recording a pre-tax loss of \$0.4 million. On an after-tax basis, the closure results in a one-time gain of \$0.17 per share, which was recorded in the fourth quarter of the year. Closure of this facility is expected to increase income in 2003 by \$1.5 million, primarily due to the elimination of losses incurred by this facility.

Also during the fourth quarter of 2002, we recorded a gain of \$0.5 million relating to an amount that had been held in escrow since 1994 (arising out of a disposal of a French subsidiary). Prior to 2001, the escrow was fully reserved, as there was doubt whether any of it would be recovered.

In 2001, gains on disposal of assets were recorded at \$0.8 million, including \$0.5 million from the French escrow. Since 2001, we have recorded gains of \$1.0 million from the recovery of amounts in escrow on this subsidiary. The matter giving rise to the escrow is now resolved and no future gains will result.

We will be selling our Louisbourg plant in 2003 for \$2.5 million. The tenant notified us it plans to exercise an option to purchase no later than April 1, 2003. Since the plant's book value is \$2.5 million, no gain or loss will result. If the purchaser cannot independently finance the purchase price, we are obligated to provide vendor financing through a first mortgage at a Canadian Chartered bank's prime rate plus 3.0%.

## Income Taxes

High Liner's effective income tax rate in 2002 is 26.3%, compared to the 40.2% for 2001. The lower effective tax rate is the result of capital gains from the closure of the Lunenburg operations and the amount recovered from escrow. Most of the costs associated with the Lunenburg wetfish closure are tax deductible. Capital loss carry forwards offset capital gains made on the sale of assets. Capital loss carry forwards that are not recorded in the accounts also offset the capital gain on the disposal of a French subsidiary. The major components of income tax expense and a reconciliation of the Company's effective tax rate are included at note 10 to the financial statements.

## Adoption of New Accounting Standards

During 2002, we adopted new accounting policies in accordance with accounting pronouncements and best practices. See the attached financial statements, beginning on page 26 of this report, for details.

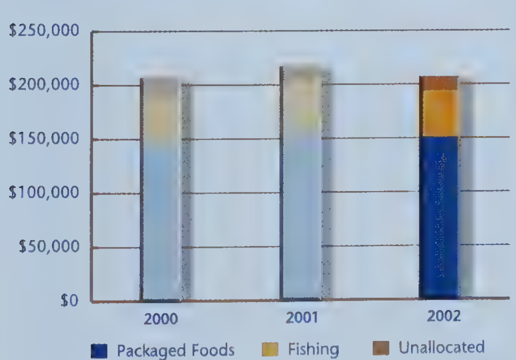
### Revenue Recognition

Changes in how we account for revenue decreased sales in 2002 by $34.0 million and decreased selling, general and administrative expenses by the same amount. This change resulted in the reclassification to sales of items previously recorded as expenses. Operating EBITDA did not change as a result of this new presentation. See note 2, *Revenue Recognition*, on page 31 to the financial statements for more details.

### Stock Compensation

In 2002, we adopted the Canadian Institute of Chartered Accountants new Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. See note 2, *Stock Compensation*, in the financial statements for more details. As permitted by the new recommendations, the Company is disclosing the impact of stock based compensation on earnings per share.

*Segmented Assets* *($000)*

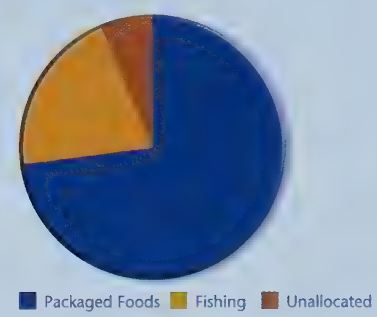



### Segmented Information

During the second quarter of 2002, we changed how we segment financial information to increase investor understanding of our Company. This has already been detailed at the beginning of the MD&A.

Data for prior years has been restated to reflect the new segments.

*2002 Segmented Assets*




### Goodwill

During the first quarter of 2002, we adopted the Canadian Institute of Chartered Accountants new Handbook Section 3062, *Goodwill and Intangible Assets*. More details of this change can be found in notes 1(f) and 2 to the financial statements. In 2002, no adjustment is required for goodwill impairment.

Goodwill, in the comparative numbers, is presented on the income statement on an after-tax basis.

Not amortizing goodwill in 2002 increased net income by $990,000 on an after-tax basis and increased earnings per share by $0.10 over last year.

## Risk

### Procurement

We are dependent upon the procurement of frozen raw seafood materials and finished goods on world markets. In 2002, the Canadian operation purchased approximately $70.0 million of this product, and the United States operation purchased approximately CAD$25.0 million. In 2003, purchases of these products are expected to increase as sales increase. Prices can fluctuate and, to date, there is no formal commercial mechanism for hedging either sales or purchases. We enter into supply contracts when possible, but these do not extend beyond a year. This is why, in 2000, we specifically assigned procurement responsibilities to a vice-president, to ensure supply management was strategically managed.

In 2002, we were able to purchase our requirements for all species at prices similar to or less than 2001. We expect that 2003 prices will either be the same or lower than 2002. A detailed discussion on seafood raw material can be found in our 2002 Annual Information Form available at www.highlinerfoods.com.

## Commodity Sales

Approximately $30.0 million of the Company's sales are commodity in nature and have relatively stable Canadian dollar costs. These sales fluctuate with market supply and demand, resulting in fluctuating gross margins.

## Quotas

Quotas are set annually by Canada's Department of Fisheries and Oceans. The system of allocating quotas and our annual share has been largely stable since 1982. However, after consultations with industry participants, scientists, and stakeholders, the Minister of Fisheries and Oceans has the right to make changes.

The Fishing division's fishing fleets hold an average of almost 30% of the groundfish quota and one sixth of the scallop quota for the Canadian offshore. This makes High Liner a significant participant in the offshore sector.

A significant reduction in quotas or adverse changes to the allocation percentages could have a negative effect on the Company's financial condition and results of operations. However, we could reduce these effects by increasing procurement from other sources, product additions/withdrawals, or by species substitution. Also, the decreased supply from lower quotas would likely mean higher selling prices.

Since the introduction of certain stock moratoriums in the early 1990's, successive Canadian Fisheries Ministers have reaffirmed that historic fleet-sector shares will be respected. Less than 15% of our sales come from these quotas. For 2003, we expect our landings of groundfish to be about the same as 2002. However, as mentioned earlier, our scallop landings are expected to decrease by about 430,000 pounds in 2003.

## Foreign Currency/Financial Risk

We have a written Policy for controlling financial risks and we regularly review our situation with respect to interest rates, foreign currency and other financial risks. Refer to notes 1(c), *Foreign Currency*, 1(h), *Financial Instruments*, and 6, *Long-Term Liabilities*, to the financial statements for more details regarding our policy and accounting treatment for foreign currency and swap agreements, respectively.

Approximately US$51 million of the Canadian operation's sales are in US dollars. In addition, up to US$67 million of purchases of raw material and finished goods for the Canadian operation are acquired with US funds.

In 2003, Canadian purchases of raw material and finished goods in US dollars and the conversion of US subsidiary income are expected to generate a $19.0 million exposure. We will actively hedge any net exposure to the US dollar in accordance with the Policy. The net effect of a one-cent change in the US dollar exchange rate for the Canadian dollar is a change in pre-tax income of approximately $190,000.

Gains and losses on US$12.0 million of long-term debt of High Liner's Canadian operations were offset as a hedge against our investment in the US operations. Any net difference is recorded in the equity section of the balance sheet. At the start of 2003, the investment in US operations was US$41.1 million.

## Labour Contracts

We employ unionized workers in our Canadian plants and fleets. Early in 2002, a dispute with our scallop fleet crew during contract negotiations interrupted fishing operations. Crewmembers subsequently

signed a new collective agreement and the impact of the disruptions on 2002 results was minimal. Labour contracts for Lunenburg plant workers and the contract with crewmembers on the groundfish trawlers expired at the end of December 2002. All other labour contracts expire at the earliest on December 31st, 2003. We believe we have good relationships with our employees and do not anticipate any major disruptions caused by labour disputes. Our United States plants are not unionized. Details of the number of employees covered by these agreements are contained in our 2002 Annual Information Form.

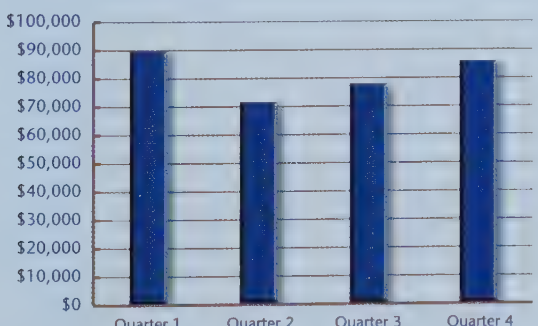
### Cost of Fuel

Our operating costs are affected by changes in crude oil prices, which particularly influence the costs of outgoing freight and diesel fuel for our fleets. As a result of higher crude oil prices in 2002 and 2001, these costs have increased, relative to 2000. As well, our freight suppliers have added fuel surcharges in recent years.

Relatively stable crude oil prices late in 2002, and the threat of war in the Middle-East made it attractive for us to hedge part of our fuel exposure for 2003. We have hedged 50% of our 2003 diesel requirements at approximately US$26 per barrel, which translates to approximately CAD$0.32 per litre of diesel.

After the effects of the above hedge, we estimate that a US$1.0 change in the price of crude oil per barrel changes pre-tax income by approximately CAD$212,000.

*2002 Sales by Quarter ($000)*




## Seasonality

Our operating results by quarter fluctuate throughout the year. Operations in the first quarter are traditionally strongest as retailers promote seafood during the Lenten period. The first quarter is also typically the strongest period for groundfish harvesting and fresh fish sales.

Our second and third quarters are more challenging as consumers spend more time outdoors, preferring not to use their ovens in summer. These quarters also have the poorest catch rates, highest fishing costs for our fleet, and the highest level of competition in the fresh fish market from inshore fleets.

*Scallop in butter with peppercorns.*

The fourth quarter is ordinarily the second most profitable. Increased fall and winter fishing activity generates increased profits and several festive occasions occur during this time that help increase demand for our products.

A summary of the net sales, total revenues, income from operations, and net income for both total and on a per-share basis, for the eight most recently completed quarters as at December 28th, 2002, is provided on page 41.

## Liquidity and Capital Resources

### Cash Flow

Cash flow from operations increased in 2002 over 2001, primarily due to a reduction of non-cash working capital balances and positive operating results. Management focused on decreasing inventory levels this year. Accounts payable at the end of 2002 were higher than those at the end of 2001 – this was a result of severance and other costs accrued from the closure of the Lunenburg wetfish operations, as well as higher profit sharing payments to employees. This was offset, in part, by higher accounts receivable at the end of 2002 due to higher December sales than in 2001.

During the year, we made payments on long-term debt of $15.8 million, an increase of $2.9 million from 2001. In 2000, we made advanced payments on certain United States bank term loans in the amount of US$3.6 million. This payment was in lieu of required payments in 2001. Regular principal payments on these loans commenced in 2002 at US$2.5 million, annually, and these are included in the $15.8 million above. Cash used for payment of current bank loans in 2002 was $11.2 million. This compares to cash provided by current bank loans in 2001 of $14.8 million. This change is due to additional cash generated from operations and a decrease in net working capital, which released cash and allowed us to pay down our working capital loans.

Capital expenditures in 2002 of $4.9 million are lower than the $6.5 million spent in 2001, due to lower expenditures for the Lunenburg wetfish operations. During the year, however, we continued to invest in our other facilities, including the Lunenburg secondary processing operation, to reduce costs and improve capacity.

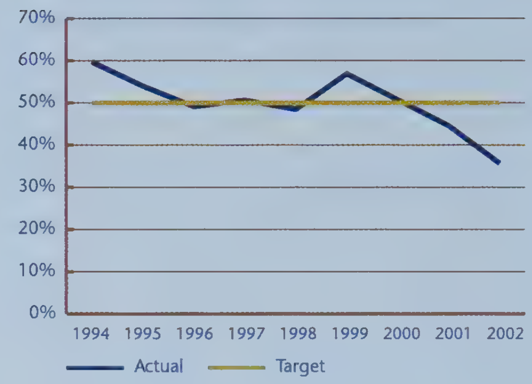
We plan to invest approximately $8.0 million in capital in 2003. Projects planned for 2003 will continue to reduce production costs and/or improve production efficiency, and upgrade secondary processing buildings. Funding for capital additions in 2003 will be from cash generated from operations.

## Financial Condition

Our financial condition is steadily improving. Since December 29th, 2001, we have reduced interest-bearing loans by $27.6 million. For full details of all loan agreements, see notes 5 and 6 to the financial statements.

Our total fixed-rate debt is approximately 93.0% of total long-term debt, at an average interest rate of approximately 8.0%.

*Long-Term Liabilities to Equity*




New long-term debt in 2002 and 2001 relates to capital leases for equipment purchases. Excluding a significant event, such as an acquisition, no other long-term debt will be required in 2003.

The working capital debt bears interest at floating rates. A $35.0 million operating line in Canada is at prime or LIBOR[6] plus 0.75% or Banker's Acceptances (BA) plus 1%. A US$7.0 million operating line in the US subsidiary is at US prime or LIBOR plus 2.0%. These operating lines total $46.0 million and borrowings under these lines at year-end were $6.0 million compared with $17.2 million at the previous year-end.

The impact on interest expense of a 1.0% change in overall rates would be approximately CAD$152,000 annually, based upon year-end debt. We utilize less expensive borrowing options, such as Bankers Acceptances or LIBOR loans, whenever possible.

Our debt is subject to several financial covenants related to debt-to-cash flow and debt-to-equity ratios. Our United States subsidiary's bank debt covenants are measured on the United States operations only, whereas covenants on other term debt are measured on consolidated results. We have met all financial covenants on all debt as at December 28th, 2002 and we do not expect to experience difficulties due to covenant performance in 2003. Due to higher capital expenditures expected in the US over the next few years, new covenants were negotiated late in 2002.

*6 LIBOR stands for London inter-bank offered rate. This is the interest rate that the largest international banks charge each other for loans, usually in Eurodollars.*

Each of our Canadian operations and our United States operations, are independently financed for the purpose of working capital loans. Except for capital transactions, there are no restrictions on transfers of funds between the two companies, as long as certain financial covenants are met. As well, there are no restrictions on the payment of dividends as long as there are no defaults on working capital loans and the dividend amount does not exceed the amount specified by long-term debt agreements. This amount is tied to earnings and in 2002 amounts to $7.6 million at year-end. These restrictions are not expected to have any effect on our ability to meet obligations.

During the past twelve months our capital structure improved, with 44.5% of capital funded by debt at December 28th, 2002, compared with 54.7% as of December 29th, 2001. Our objective is to not exceed 50.0% of capital funded by debt.

## Other

Dividends on Class C & D Preference Shares were paid in full in both 2001 and 2002. Current year dividends on the Second Preference Shares in the amount of $1.0 million were paid in full in 2002. In 2001, this amounted to $1.2 million. The reduction in this dividend is due to lower prime rates during 2002. Dividends in arrears on the Second Preference Shares in the amount of $1.4 million for the period between December 31st, 1991, to December 30th, 1992, were also paid in the fourth quarter of 2002. This is the second payment in arrears as $770,000 was paid in 2002. For more information on dividends, see note 7, *Share Capital* to the financial statements.

## Outlook for 2003

In 2003, we will continue to advance our proven growth strategies. Our goals for 2003 are to increase sales and pre-tax income by 10%.

Our goals are set out on page 7 of this report.

United States club stores will continue to be a focal point for us, with sales increases in this channel expected to be almost 40%. United States private label seafood sales will increase as we obtained new business late in 2002. New Fisher Boy products are expected to differentiate us among seafood brands and assist in increasing distribution. Early in 2003, we obtained national distribution for four Fisher Boy products. We expect to launch more new products that will help in achieving sales increases. These include a new Gina Italian Village premium sub-brand, Villa Prima™, in the New York area. New Signature premium quality products will be launched in Canada and the United States, and Italian Village pasta will be launched in Western Canada.

## Forward-Looking Statements

This document contains forward-looking statements, including sales, earnings and profitability comments for 2003 and beyond. These statements contain words such as “anticipate,” “expect,” “could,” “should,” “may,” “plans,” “will,” or similar expressions that are based on and arise out of our experience, our perception of trends, current conditions and expected future developments as well as other factors. The statements are not a guarantee of future performance. By their nature, forward-looking statements involve uncertainties and risks that the forecasts and targets will not be achieved.

Readers are cautioned not to place undue reliance on forward-looking statements as a number of important factors, as discussed herein and in our other continuous disclosure documents, could cause actual results to differ materially from those expressed in such forward-looking statements. We include in publicly available documents a thorough discussion of the risk factors that can cause our anticipated outcomes to differ from actual outcomes. We disclaim any intention or obligation to update or revise forward-looking statements.

# FINANCIAL STATEMENTS

## Auditors' Report

To the Shareholders of High Liner Foods Incorporated

We have audited the consolidated balance sheets of High Liner Foods Incorporated as at December 28th, 2002 and December 29th, 2001 and the consolidated statements of income, retained earnings and cash flows for the 52 weeks then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 28th, 2002 and December 29th, 2001 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants, Halifax, Canada, January 24, 2003

## Management's Responsibility

The Management of High Liner Foods Incorporated includes corporate executives, operating and financial managers and other personnel working full time on Company business. The statements have been prepared in accordance with generally accepted accounting principles consistently applied, using Management's best estimates and judgments, where appropriate. The financial information elsewhere in this report is consistent with the statements.

Management has established a system of internal control that it believes provides a reasonable assurance that, in all material respects, assets are maintained and accounted for in accordance with Management's authorization and transactions are recorded accurately on the Company's books and records. The Company's internal audit program is designed for constant evaluation of the adequacy and effectiveness of the internal controls. Audits measure adherence to established policies and procedures.

The Audit Committee of the Board of Directors is composed of four outside directors. The Committee meets periodically with management, the internal auditor and independent chartered accountants to review the work of each and to satisfy itself that the respective parties are properly discharging their responsibilities. The independent chartered accountants and the internal auditor have full and free access to the Audit Committee at any time. In addition, the Audit Committee reports its findings to the Board of Directors, which reviews and approves the consolidated financial statements.

K.L. Nelson, Vice President Corporate Services and Chief Financial Officer

# Consolidated Balance Sheets
*(in thousands of dollars)*

**Assets**
*(notes 5 and 6)*

| | December 28, 2002 | December 29, 2001 |
|---|---|---|
| Current: | | |
| Cash | $ 1,088 | $ 588 |
| Accounts receivable *(note 3)* | 35,001 | 29,250 |
| Inventories *(note 3)* | 50,053 | 61,422 |
| Prepaid expenses | 1,600 | 1,124 |
| Future income taxes *(note 10)* | 6,991 | 6,022 |
| Total current assets | 94,733 | 98,406 |
| Property, plant and equipment *(note 4)* | 44,303 | 46,839 |
| Other: | | |
| Goodwill | 55,661 | 56,626 |
| Deferred charges | 931 | 1,728 |
| Future income taxes *(note 10)* | 5,037 | 7,337 |
| Other receivables and sundry investments *(note 16)* | 6,702 | 6,934 |
| | 68,331 | 72,625 |
| | $ 207,367 | $ 217,870 |

**Liabilities and Shareholders' Equity**

| | December 28, 2002 | December 29, 2001 |
|---|---|---|
| Current: | | |
| Bank loans *(note 5)* | $ 5,960 | $ 17,184 |
| Accounts payable and accrued liabilities *(note 5)* | 42,490 | 34,445 |
| Income taxes payable | - | 109 |
| Current portion of long-term liabilities *(note 6)* | 15,919 | 15,871 |
| Total current liabilities | 64,369 | 67,609 |
| Long-term liabilities *(note 6)* | 49,395 | 65,840 |
| Employee future benefits *(note 13)* | 571 | 560 |
| Future income taxes *(note 10)* | 4,004 | 2,055 |
| Shareholders' Equity: | | |
| Preference shares *(note 7)* | 21,246 | 21,318 |
| Common shares *(note 7)* | 28,361 | 28,182 |
| Retained earnings | 37,080 | 29,289 |
| Foreign currency translation account *(note 8)* | 2,341 | 3,017 |
| | 89,028 | 81,806 |
| | $ 207,367 | $ 217,870 |

*See accompanying notes to the financial statements*

On behalf of the Board

Henry E. Demone, *Director*

David J. Hennigar, *Director*

## Consolidated Statements of Income

*(In thousands of dollars, except per share information)*

For the fifty-two weeks ended December 28, 2002

*(With comparative figures for the fifty-two weeks ended December 29, 2001)*

| | Fiscal 2002 | Fiscal 2001 Restated *(note 2)* |
|---|---|---|
| **Sales** | $ 324,458 | $ 299,194 |
| Cost of sales | 254,461 | 234,020 |
| **Gross profit** | 69,997 | 65,174 |
| Other selling, general and administrative expenses | 41,606 | 37,542 |
| **Earnings before interest, taxes, depreciation, amortization and the undernoted (Operating EBITDA)** | 28,391 | 27,632 |
| Litigation costs | (2,655) | (2,582) |
| Depreciation and amortization, excluding goodwill amortization | (5,643) | (6,030) |
| Interest expense: | | |
| Short-term | (252) | 3 |
| Long-term | (6,334) | (7,683) |
| Foreign exchange gains (losses) | 32 | (26) |
| Other income *(note 9)* | 356 | 797 |
| **Income before income taxes** | 13,895 | 12,111 |
| **Income taxes** *(note 10)* | | |
| Current | (287) | (482) |
| Future | (3,366) | (4,457) |
| Total income taxes | (3,653) | (4,939) |
| **Income before goodwill amortization** | 10,242 | 7,172 |
| Goodwill amortization (2001; net of income taxes of $776) | - | (990) |
| **Net income for the period** | $ 10,242 | $ 6,182 |
| **Earnings Per Common Share – Based on Net Income** *(note 11)* | | |
| Basic | $ 0.93 | $ 0.50 |
| Diluted | $ 0.87 | $ 0.48 |
| **Earnings Per Common Share – Based on Income Before Goodwill Amortization** *(note 11)* | | |
| Basic | $ 0.93 | $ 0.60 |
| Diluted | $ 0.87 | $ 0.58 |
| **Average Common Shares Outstanding** *(note 11)* | | |
| Basic | 9,822,044 | 9,788,492 |
| **Diluted** | 10,769,929 | 10,720,059 |

*See accompanying notes to the financial statements*

## Consolidated Statements of Retained Earnings

*(In thousands of dollars)*

For the fifty-two weeks ended December 28, 2002

*(With comparative figures for the fifty-two weeks ended December 29, 2001)*

| | Fiscal 2002 | Fiscal 2001 |
|---|---|---|
| **Balance, beginning of period** | $ 29,289 | $ 25,148 |
| Net income for the period | 10,242 | 6,182 |
| Second Preference Share dividends | | |
| Current | (1,017) | (1,195) |
| Arrears | (1,362) | (770) |
| Class C and D Preference Share dividends | (72) | (76) |
| **Balance, end of period** | $ 37,080 | $ 29,289 |

*See accompanying notes to the financial statements*

## Consolidated Statements of Cash Flows

*(in thousands of dollars)*

For the fifty-two weeks ended December 28, 2002

*(With comparative figures for the fifty-two weeks ended December 29, 2001)*

| | Fiscal 2002 | Fiscal 2001 |
|---|---|---|
| **Cash provided by (used in) operations:** | | |
| Net income for the period | $ 10,242 | $ 6,182 |
| **Charges (credits) to income not involving cash from operations:** | | |
| Amortization of goodwill | - | 1,766 |
| Depreciation and other amortization | 5,850 | 6,229 |
| Gain on asset disposals | (3,569) | (797) |
| Non-cash severance and other costs | 3,272 | - |
| Future income taxes | 3,366 | 3,786 |
| Cash flow from operations before changes in non-cash working capital | 19,161 | 17,166 |
| Net change in non-cash working capital balances related to operations | 10,033 | (11,833) |
| | 29,194 | 5,333 |
| **Cash provided by (used in) financing activities:** | | |
| Change in current bank loans | (11,224) | 14,847 |
| Long-term debt proceeds | 268 | 398 |
| Repayments of long-term debt | (15,841) | (12,898) |
| Funding of employee future benefits less than (in excess of) expense | 19 | (125) |
| Preferred share dividends paid | (2,451) | (2,041) |
| Foreign exchange translation | (51) | 307 |
| Issue of equity shares | 179 | 117 |
| | (29,101) | 605 |
| **Cash provided by (used in) investing activities:** | | |
| Purchase of property, plant and equipment | (4,869) | (6,480) |
| Proceeds on disposal of non-current assets | 4,631 | 241 |
| Decrease (increase) in other assets | 645 | (217) |
| | 407 | (6,456) |
| **Increase (decrease) in cash during the period** | 500 | (518) |
| **Cash, beginning of period** | 588 | 1,106 |
| **Cash, end of period** | $ 1,088 | $ 588 |

*See accompanying notes to the financial statements*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared on the historical cost basis in accordance with Canadian generally accepted accounting principles.

### (a) Basis of consolidation

The accompanying financial statements consolidate the accounts of the Company and all its subsidiary companies.

### (b) Inventory valuation

Inventories are valued at the lower of cost (includes raw materials, direct labour and overhead) and net realizable value with cost determined principally on a first-in, first-out basis.

### (c) Foreign currency

Unless otherwise noted, all amounts in these financial statements are in Canadian dollars.

Assets and liabilities of the United States subsidiary operation, which is financially and operationally independent of the parent, are translated at exchange rates prevailing at the balance sheet date. The revenues and expenses are translated at average exchange rates prevailing during the year. The gains and losses on translation are deferred and included as a separate component of shareholders' equity titled "foreign currency translation account" until there is a realized reduction in the net investment.

At December 28th, 2002, the Company's net investment in its United States subsidiary is partially hedged by long-term borrowings in US dollars of US$12 million (December 29, 2001; US$15 million). Gains and losses on the US dollar debt identified as a hedge against this investment are included in equity through the "foreign currency translation account" to offset gains and losses on the net investment in the United States subsidiary.

Foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Gains or losses on translation are included in income.

### (d) Property, Plant and Equipment

Property, plant and equipment is carried at the lower of cost, net of accumulated depreciation, and net recoverable amount. Depreciation is provided on the straight-line basis at the following rates per annum:

| | |
|---|---|
| Brick buildings | 2½% |
| Other buildings | 2½% to 5% |
| Computer and electronic equipment | 25% |
| Machinery and equipment, other | 6⅔% |
| Equipment under capital lease | Lease term |
| Vessels | Over their estimated remaining useful lives of 3-7 years, after deducting their estimated salvage value. |

Assets held for sale are recorded at the lower of cost and estimated net realizable value.

### (e) Deferred charges

Deferred charges represent bank financing costs and software maintenance fees. These are amortized over the remaining term of the item to which they relate. Deferred charges are stated at cost net of accumulated amortization. Amortization expense during the year amounted to $247,000 (2001; $225,000).

### (f) Goodwill

Goodwill is stated at cost net of accumulated amortization. Amortization on goodwill ceased at the end of 2001 due to the mandatory adoption of Canadian Institute of Chartered Accountants new Handbook Section 3062. Instead, the Company performs an impairment test annually or when an event or circumstance occurs that more likely than not reduces the fair value of the reporting unit below its carrying amount to ascertain whether goodwill impairment exists. Any impairment provision would be charged to income in the year the impairment occurs (see note 2). There was no goodwill added during 2002 or 2001.

### (g) Employee benefit plans

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the pension plan is 21 years. The average remaining service period of the active employees covered by the other benefits plan is 7 years.

### (h) Financial Instruments

Derivative financial instruments are utilized by the Company in accordance with a written policy to manage its foreign currency and interest rate exposures. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments that have been terminated or cease to be effective prior to maturity are recognized in income.

The Company periodically enters into foreign exchange contracts to hedge future cash flows. The contracts are valued at rates prevailing at the balance sheet date. The resulting gains and losses on these contracts are not recognized until the hedged cash flows are realized. At year end, the Company had the following foreign exchange contracts outstanding all with maturities of less than one year.

| December 28, 2002 | | December 29, 2001 | |
|---|---|---|---|
| **Sell** | **Receive** | **Sell** | **Receive** |
| **£ 370,648** | **$ 914,321 Cdn** | £ 88,920 | $ 202,026 Cdn |
| **€ 223,529** | **$ 348,862 Cdn** | € 234,559 | $ 328,805 Cdn |

See note 6 for details on interest rate swaps. To minimize credit risk, the counter parties on the interest rate swaps are major financial institutions. The Company anticipates that these financial institutions will satisfy their obligations under these agreements.

The Convertible Subordinated Debentures are classified as debt as these are convertible to common shares at the option of the holder.

The Company's primary financial instruments consist of receivables, investment tax credits, current liabilities and long-term debt. The difference between the carrying values and the fair market values of the primary financial instruments are not material due to the short-term maturities and, or the credit terms of those instruments.

### (i) Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### (j) Revenue Recognition

Sales are recognized in income when the related products have been shipped to customers. Revenue is recorded net of various customer marketing costs including volume rebates, cooperative advertising and various other trade marketing costs.

## 2. ADOPTION OF NEW ACCOUNTING STANDARDS

*Revenue Recognition*

Starting in 2002, sales have been restated to effectively adopt United States accounting recommendations including Securities and Exchange Commission Staff Accounting Bulletin (SAB) 101 and various related Emerging Issues Task Force abstracts from the Financial Accounting Standards Board that clarify SAB 101. Consequently, sales are recorded net of various customer marketing costs including volume rebates, cooperative advertising, proof-of-purchase rebates/allowances, cash discounts, listing fees, coupon redemptions and various other trade marketing costs. Prior to the current year, sales included gross sales less off-invoice allowances, specials and other sales allowances.

This change has been accounted for retroactively and prior years and quarters have been restated. The effect of this change results in a reclassification of costs on the statements of income and does not change the net income of the Company. The impact of the changes was to decrease sales for 2002 and 2001, respectively by $34.0 and $29.9 million and decrease selling, general and administrative expenses by the same amount.

*Stock Compensation*

During the first quarter of 2002, the Company adopted the Canadian Institute of Chartered Accountants new Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments.*

The Company has only one stock-based compensation plan, which is a common share option plan for certain management employees and directors (see note 7c).

As permitted by the new recommendations, no compensation expense is recognized for this plan when stock or stock options are issued. However, the Company is disclosing the pro-forma net income and pro-forma earnings per share using the fair market value method of accounting for stock-based compensation awards. This pro-forma information is presented in note 11. Any consideration paid by employees and directors on exercise of stock options or purchase of stock is credited to share capital. During 2002, $127,858 (2001 – nil) was credited to share capital in respect of share options exercised.

*Goodwill*

During the first quarter of 2002, the Company adopted the Canadian Institute of Chartered Accountants new Handbook Section 3062, *Goodwill and Intangible Assets*. Previously, the Company amortized goodwill over 35 years. Under the new recommendations, goodwill and intangibles with an indefinite life are no longer amortized. Entities are also required to perform an impairment test as of January 1st, 2002, to ascertain whether or not they should recognize a decline in the carrying value of any recorded goodwill balances. The Company has completed its initial annual goodwill impairment assessment and no adjustment is required to the carrying value of goodwill.

## 3. CURRENT ASSETS

### (a) Accounts receivable

| | | Dec 28, 2002 ($000) | | Dec 29, 2001 ($000) |
|---|---|---|---|---|
| Canada Trade | $ | 14,213 | $ | 12,490 |
| US Trade (US$11,634; 2001 US$9,162) | | 18,246 | | 14,619 |
| Other | | 2,542 | | 2,141 |
| | $ | 35,001 | $ | 29,250 |

### (b) Inventories

| | | Dec 28, 2002 ($000) | | Dec 29, 2001 ($000) |
|---|---|---|---|---|
| Finished goods | $ | 24,240 | $ | 31,036 |
| Raw and semi-finished material | | 16,278 | | 22,998 |
| Retail stores | | 1,026 | | 1,198 |
| Supplies and repair parts | | 8,509 | | 6,190 |
| | $ | 50,053 | $ | 61,422 |

## 4. PROPERTY, PLANT AND EQUIPMENT

| | | Dec 28, 2002 ($000) | | Dec 29, 2001 ($000) |
|---|---|---|---|---|
| Land | $ | 322 | $ | 365 |
| Buildings | | 28,223 | | 26,624 |
| Equipment | | 64,813 | | 85,445 |
| Equipment under capital lease | | 1,804 | | 1,457 |
| Vessels | | 33,391 | | 33,355 |
| | | 128,553 | | 147,246 |
| Less accumulated depreciation: | | | | |
| Buildings | | 18,178 | | 17,891 |
| Equipment | | 42,800 | | 59,220 |
| Equipment under capital lease | | 522 | | 274 |
| Vessels | | 26,939 | | 25,849 |
| | | 88,439 | | 103,234 |
| Non-operating assets held for sale | | 4,189 | | 2,827 |
| | $ | 44,303 | $ | 46,839 |

Assets held for sale include a leased plant that is subject to a purchase option in the amount of $2.5 million that expires in 2003 and a surplus groundfish trawler.

## 5. CURRENT LIABILITIES

### (a) Bank loans

| | | Dec 28, 2002 ($000) | | Dec 29, 2001 ($000) |
|---|---|---|---|---|
| Bank loans, denominated in Canadian dollars not exceeding prime (average rate at 2002 year end 4.5%; 2001 year end 4.0%) | $ | 603 | $ | 8,636 |
| Bank loans, denominated in US dollars, not exceeding US base rate (US$3,416; 2001 US$5,357) average rate at 2002 year end 4.75%; 2001 year end 5.25% | | 5,357 | | 8,548 |
| | $ | 5,960 | $ | 17,184 |

The Company has pledged as collateral for its bank loans a general assignment of accounts receivable and inventory. The Company has the option of borrowing using bankers acceptances (BAs), LIBOR or prime loans and borrows using the lowest cost instruments, usually LIBOR or BAs.

**(b) Accounts payable and accrued liabilities**

| | Dec 28, 2002 ($000) | Dec 29, 2001 ($000) |
|---|---|---|
| Canadian payables | $ 23,599 | $ 16,268 |
| US payables (US$12,045; 2001 US$11,392) | 18,891 | 18,177 |
| | $ 42,490 | $ 34,445 |

Accounts payable bear normal commercial credit terms and are non-interest bearing.

## 6. LONG-TERM LIABILITIES

| | Dec 28, 2002 ($000) | Dec 29, 2001 ($000) |
|---|---|---|
| Notes payable due to 2005 (i) | | |
| At 8.28% (US$10,200; 2001 US$13,600) | $ 15,998 | $ 21,700 |
| At 7.78% | 14,464 | 19,285 |
| Notes payable not exceeding US prime due to 2005 (US$14,800; 2001 US$17,250)(i)(ii) | 23,212 | 27,524 |
| Vessel mortgage due 2006 at 7.5% (iii) | 5,502 | 6,867 |
| Convertible Subordinated Debentures (iv) | | |
| At prime plus 2% due in 2006 | 4,897 | 4,948 |
| Capital leases at 7.85% to 8.67% due 2003 to 2008 | 1,226 | 1,352 |
| Other loans | 15 | 35 |
| | 65,314 | 81,711 |
| Less current installments (including US$5,851) | 15,919 | 15,871 |
| | $ 49,395 | $ 65,840 |

(i) The Company has pledged as collateral for the notes payable a fixed charge on certain vessels, plants and equipment.

(ii) The Company has entered into amortizing floating-for-fixed interest rate swap agreements on a notional US$10.1 million to October 31st, 2003 and on a notional US$7.1 million to July 31st, 2004. At December 28th, 2002, the notional amounts are US$8.6 million and US$6.2 million. These swaps hedge the Company's $23.2 million notes payable and result in an effective interest rate of 8.1%. The fair value of these swaps at December 28th, 2002 is $1.0 million lower than when they were initiated. However the Company enters into these arrangements to effectively fix the interest rate on certain floating rate long-term debt at rates considered reasonable for the periods hedged. Any gains or losses on these swaps will offset interest rate changes in the future, reducing the effect of changing interest rates on the Company's earnings.

(iii) This loan may, at the option of the Company, be converted to redeemable preference shares bearing a dividend entitlement based on a defined cash flow. If converted to preference shares, other conditions would apply. At this time, the Company does not intend to convert this loan to preference shares. The Company also has the option at any time to convert any or all of such preference shares back to a term loan at 7.5% per annum amortized over a term not exceeding 7 years.

(iv) The Company has pledged as collateral for the Convertible Subordinated Debentures a second floating charge over the assets of the Company.

The Convertible Subordinated Debentures are convertible into common shares at the option of the holder before the maturity date of July 21st, 2006 at a conversion price of $6.00 per common share.

The Debentures are redeemable at the Company's option for cash at par plus accrued and unpaid interest to the date of redemption. The equity element representing the holders' right to convert is not material. During the year $51,300 (2001; $116,800) of Convertible Debentures were converted to 8,546 shares (2001; 19,465).

(v) The principal payments required, in Canadian dollars, on long-term debt in each of the next five fiscal periods are as follows:

| | CDN ($000) |
|---|---|
| 2003 (includes US$5,851) | 15,920 |
| 2004 (includes US$5,850) | 15,801 |
| 2005 (includes US$13,300) | 27,616 |
| 2006 (includes US$nil) | 5,859 |
| 2007 (includes US$nil) | 119 |

## 7. SHARE CAPITAL

The share capital of the Company at December 28th, 2002 and December 29th, 2001 is as follows:

**Authorized:**

| | |
|---|---|
| Cumulative Redeemable Convertible Preference Shares of the par value of $5 each, redeemable at par | |
| 5 1/2% Class C | **600,000** |
| 5 1/2% Class D | **400,000** |
| Cumulative Redeemable Second Preference Shares of the par value of $100 each | **200,000** |
| Preference Shares of the par value of $25 each, issuable in series | **9,999,944** |
| Subordinated Redeemable Preference Shares of the par value of $1 each, redeemable at par | **1,025,542** |
| Common Shares, without par value | **200,000,000** |

| | Dec 28, 2002 Shares | Dec 28, 2002 ($000) | Dec 29, 2001 Shares | Dec 29, 2001 ($000) |
|---|---|---|---|---|
| **Issued** | | | | |
| Preference | | | | |
| Class C and D Preference Shares (i) | **249,007** | **$ 1,246** | 263,653 | $ 1,318 |
| Second Preference Shares (ii) | **200,000** | **20,000** | 200,000 | 20,000 |
| | | **$ 21,246** | | $ 21,318 |
| Common | | | | |
| Common Shares (iii) | **9,835,944** | **$ 28,361** | 9,799,286 | $ 28,182 |

*(i) Class C & D Preference Shares are shown net of 136,868 (2001; 122,222) shares that are owned by a subsidiary company.*

*(ii) Dividends are in arrears for the period December 31st, 1992 to December 31st, 1997 in the amount of $6,257,534 (2001; for the period December 31st, 1991 to December 31st, 1997, in the amount of $7,619,534).*

*(iii) Common shares issued are shown net of 171,500 shares (2001; 171,500 shares) in the amount of $2,558,200 (2001; $2,558,200) that are owned by a subsidiary company.*

### (a) Common Share transactions

| | Fiscal 2002 Shares | Fiscal 2002 ($000) | Fiscal 2001 Shares | Fiscal 2001 ($000) |
|---|---|---|---|---|
| Balance, beginning of period | **9,799,286** | **$ 28,182** | 9,779,821 | $ 28,065 |
| Shares Issued: | | | | |
| Convertible subordinated debentures converted | **8,546** | **51** | 19,465 | 117 |
| Stock options exercised | **28,112** | **128** | - | - |
| **Balance, end of period** | **9,835,944** | **$ 28,361** | 9,799,286 | $ 28,182 |

### (b) Preference Shares

The Class C and Class D Convertible Preference Shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects.

The Second Preference Shares are redeemable by the Company at their par value plus accrued and unpaid dividends. Cumulative dividends are payable quarterly at one-half a chartered bank's prime lending rate plus 3%.

The Class C and Class D Preference Shares and the Second Preference Shares will be redeemable in full in the event of any redemption or purchase for cancellation of any shares of the Company.

### (c) Share Option Plan

The Company has a common share option plan for designated directors, officers and certain managers of the Company and of subsidiary companies, with total options granted not to exceed 10% of the issued Common Shares.

The Company does not record compensation expense on the issue and exercise of stock options as they are granted to employees at fair market value. See note 2.

The following options were outstanding at year end.

| Exercise Price $ | Remaining Average Contractual Life in Years | Expiry | Dec 28, 2002 | Dec 29, 2001 |
|---|---|---|---|---|
| 3.70 | 5.52 | 2006-2010 | 50,000 | 50,000 |
| 4.10 | 3.26 | 2006 | 72,175 | 76,500 |
| 4.40 | 4.26 | 2007 | 85,050 | 89,325 |
| 4.60 | - | 2002 | - | 27,225 |
| 4.75 | 3.97 | 2005-2008 | 114,875 | 30,000 |
| 5.15 | 5.26 | 2008 | 48,000 | 0 |
| 6.25 | 2.26 | 2003-2007 | 104,875 | 105,375 |
| 7.75 | 2.95 | 2003-2007 | 100,000 | 100,000 |
| 8.25 | 2.79 | 2003-2004 | 80,300 | 80,550 |
| 8.75 | 2.26 | 2005 | 62,700 | 62,950 |
| 9.00 | - | 2000-2002 | - | 34,750 |
| | | | 717,975 | 656,675 |

Included in the above figures are options of 140,975 at an average exercise price of $5.09, that were not exercisable on December 28th, 2002, as they had not vested (December 29, 2001, 144,800 options at an average exercise price of $5.55).

A summary of recent option activities is as follows:

| | Fiscal 2002 | | Fiscal 2001 | |
|---|---|---|---|---|
| | Options | Weighted Average Price | Options | Weighted Average Price |
| Beginning of year | 656,675 | $ 6.56 | 622,950 | $ 6.73 |
| Granted | 134,050 | $ 4.89 | 92,000 | $ 4.40 |
| Expired/cancelled | (44,638) | $ 8.06 | (58,275) | $ 8.15 |
| Exercised | (28,112) | $ 4.55 | - | - |
| **End of Year** | 717,975 | $ 5.97 | 656,675 | $ 6.56 |

Under the terms of the plan:

(i) The Company's Human Resource and Corporate Governance Committee of the Board designates from time to time eligible participants to whom options will be granted, and the number of shares to be optioned to each;

(ii) Eligible participants are persons who are officers, general managers, division managers, certain head office managers, and directors of the Company, and officers, managers and directors of subsidiary companies;

(iii) Shares to be optioned shall not exceed the aggregate number of 1,750,000; the total number of shares to be optioned to any eligible participant shall not exceed 5% of the issued and outstanding shares of the class as at the date such option is granted; and the aggregate annual number of options granted to Company directors cannot exceed 75,000;

(iv) The option price for the shares is determined by the Committee at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted;

(v) The term during which any option granted may be exercised is determined by the Committee at the time the option is granted, but may not exceed the maximum period permitted from time to time by The Toronto Stock Exchange; the purchase price is payable in full at the time the option is exercised.

## 8. FOREIGN CURRENCY TRANSLATION ACCOUNT

| | Fiscal 2002 *($000)* | Fiscal 2001 *($000)* |
|---|---|---|
| **Balance, beginning of period** | $ 3,017 | $ 796 |
| Translation adjustments related to net assets of self-sustaining foreign operations | (1,084) | 3,652 |
| Effects of exchange rate variation on translation of US$ loans designated as hedges of net investment in self-sustaining foreign operation | 408 | (1,431) |
| **Balance, at end of period** | $ 2,341 | $ 3,017 |

## 9. OTHER INCOME

| | | Fiscal 2002 ($000) | | Fiscal 2001 ($000) |
|---|---|---|---|---|
| **Closure of Lunenburg wetfish processing facility:** | | | | |
| Severance and other related costs | $ | (3,412) | $ | - |
| Gain on disposal of assets | | 3,043 | | 238 |
| | | (369) | | 238 |
| **Gain of disposal of subsidiary** | | 526 | | 499 |
| **Other gains** | | 199 | | 60 |
| | $ | 356 | $ | 797 |

## 10. INCOME TAXES

Temporary differences and loss carry forwards that give rise to future income tax assets and liabilities are as follows:

| | | Dec 28, 2002 ($000) | | Dec 29, 2001 ($000) |
|---|---|---|---|---|
| **Future income tax assets** | | | | |
| Property, plant and equipment | $ | 3,058 | $ | 3,648 |
| Goodwill | | (4,801) | | (2,140) |
| Tax loss carry forwards | | 5,646 | | 6,497 |
| Deferred charges and other | | 4,333 | | 3,486 |
| Scientific research and experimental development | | 2,301 | | 2,318 |
| Valuation allowance | | (2,513) | | (2,505) |
| | | 8,024 | | 11,304 |
| Less: current portion – asset | | 6,991 | | 6,022 |
| Less: long term portion of future income tax – asset | | 5,037 | | 7,337 |
| Long-term portion of future income tax – liability | $ | (4,004) | $ | (2,055) |

The Company has investment tax credit carry-forwards of approximately $2.8 million (December 29, 2001; $2.7 million) available to reduce federal income taxes, expiring from 2003 through 2012. The Company also has provincial investment tax credits carry forwards of approximately $1.9 million (December 29th, 2001, $2.3 million) available to reduce provincial income tax, with these credits expiring from 2004 to 2009.

As well, the Company has capital loss carry-forwards of approximately $40.3 million (December 29, 2001; $43.5 million) available to reduce future capital gains that are not recorded in the accounts of the Company.

Tax loss carry forwards recorded in the accounts have no expiry.

The reconciliation of the Company's effective income tax rate is as follows:

| | Fiscal 2002 % | Fiscal 2001 % |
|---|---|---|
| Federal income tax rate | 38.0 | 38.0 |
| Provincial income taxes, net of federal abatement | 4.4 | 4.7 |
| Applicable tax rate | 42.4 | 42.7 |
| Tax incentives for manufacturing and processing and active income | (4.3) | (4.1) |
| Rate reduction | (2.7) | (2.9) |
| Canadian surtax and large corporation tax | 1.0 | 3.3 |
| Non-taxable gain on sales of capital assets | (14.2) | |
| Effect of other non-deductible items | 4.1 | 1.2 |
| | 26.3 | 40.2 |

## 11. EARNINGS AND PER SHARE EARNINGS

The following is the reconciliation of the numerators and the denominators of basic and diluted earnings per share computations.

Earnings per Share – Based on Net Income

| | Fiscal 2002 | | | Fiscal 2001 | | |
|---|---|---|---|---|---|---|
| | Income [A] *($000)* | Shares [B] *(000)* | Per Share Amount [A]+[B] | Income [A] *($000)* | Shares [B] *(000)* | Per Share Amount [A]+[B] |
| Net income | $ 10,242 | | | $ 6,182 | | |
| Preferred share dividends | (1,089) | | | (1,271) | | |
| **Basic Earnings per Share:** | | | | | | |
| Income available to common shareholders | $ 9,153 | 9,822 | $ 0.93 | $ 4,911 | 9,788 | $ 0.50 |
| **Diluted Earnings per Share:** | | | | | | |
| Effect of dilutive securities: | | | | | | |
| Convertible Subordinated Debentures | 181 | 822 | | 276 | 895 | |
| Stock options | - | 126 | | - | 37 | |
| **Income available to common shareholders and assumed conversions** | $ 9,334 | 10,770 | $ 0.87 | $ 5,187 | 10,720 | $ 0.48 |

Options to purchase 243,000 common shares at an average price of $8.17 per share (2001; 383,625 common shares at $7.72 per share) were outstanding at year end but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common share.

Had the Company used the fair value method for accounting for stock-based compensation, the pro-forma net income and earnings per share would be as follows:

| | Fiscal 2002 *($000)* |
|---|---|
| Net income | $ 10,242 |
| Stock compensation expense | (253) |
| Pro-forma earnings | $ 9,989 |
| Basic pro-forma earnings per common share | $ 0.91 |

Pro-forma disclosure is provided for awards granted in fiscal 2002 and has not been provided for awards granted before 2002 as permitted by CICA Handbook Section 3870.84.

## 12. SEGMENTED INFORMATION

During the second quarter of 2002, the Company changed how it segments financial information. Previously, the Company was segmented by geography. The new presentation segments the Company between Packaged Foods and Fishing. In the past, the Canadian Packaged Foods and Fishing operations were integrated, selling the fishing production through retail and food service markets in Canada and the United States. In recent months, the integration between the Fishing business and the Packaged Foods business has declined to a point where the economic considerations of the Canadian retail and food service business are much more aligned with the Company's United States operations. The Fishing business is becoming a commodity operation, with different products, production processes and customers than that of the Packaged Foods business of the Company.

Comparative data for 2001 was restated to reflect the change.

The Company evaluates performance of the reportable segments based on income before taxes. Operations and identifiable assets by reporting segment are as follows:

| | Fiscal 2002 *($000)* | | | Fiscal 2001 Restated *(see note 2)* *($000)* | | |
|---|---|---|---|---|---|---|
| Total Sales: | Packaged Foods | Fishing | Total | Packaged Foods | Fishing | Total |
| Canada | $ 111,475 | $ 54,603 | $ 166,078 | $ 116,922 | $ 50,563 | $ 167,485 |
| Inter-segment (i) | - | (38,054) | (38,054) | - | (34,900) | (34,900) |
| | 111,475 | 16,549 | 128,024 | 116,922 | 15,663 | 132,585 |
| United States | 151,696 | 47,331 | 199,027 | 114,612 | 42,083 | 156,695 |
| Inter-segment (i) | - | (17,379) | (17,379) | - | (4,165) | (4,165) |
| | 151,696 | 29,952 | 181,648 | 114,612 | 37,918 | 152,530 |
| Europe and Pacific Rim | - | 11,276 | 11,276 | - | 10,733 | 10,733 |
| Other | 3,510 | - | 3,510 | 3,346 | - | 3,346 |
| **Net sales to external customers** | $ 266,681 | $ 57,777 | $ 324,458 | $ 234,880 | $ 64,314 | $ 299,194 |

*(i) Inter-segment sales from Fishing to Prepared Foods for raw material and finished goods are at commodity market prices.*
*(ii) Export sales from Canada to the USA, including intercompany sales, were $66.2 million in 2002 (2001; $47.2 million)*

# Nine Year Financial Data

*(All amounts in thousands, except per share amounts)*

| | 2002 | 2001(1) | 2000(1) | 1999(1) | 1998(1) | 1997(1) | 1996(1) | 1995(1) | 1994(1) |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | $ 324,458 | $ 299,194 | $ 281,990 | $ 271,985 | $ 268,796 | $ 257,414 | $ 233,828 | $ 232,212 | $ 235,016 |
| **Gross profit** | 69,997 | 65,174 | 60,555 | 46,750 | 59,772 | 52,779 | 45,515 | 47,007 | 54,963 |
| Other selling, general and administrative expenses | (41,606) | (37,542) | (32,925) | (34,138) | (34,589) | (31,539) | (28,134) | (30,375) | (30,987) |
| **Operating EBITDA (2)** | 28,391 | 27,632 | 27,630 | 12,612 | 25,183 | 21,240 | 17,381 | 16,632 | 23,976 |
| Litigation costs | (2,655) | (2,582) | (671) | (389) | - | - | - | - | - |
| Depreciation | (5,643) | (6,030) | (5,889) | (6,241) | (6,356) | (6,828) | (6,997) | (7,315) | (7,076) |
| Interest expense | (6,586) | (7,680) | (8,725) | (9,222) | (6,531) | (5,255) | (6,162) | (8,008) | (8,216) |
| Foreign exchange gain (loss) | 32 | (26) | 90 | 177 | (1,253) | (259) | (8) | (190) | (456) |
| **Income (loss) before the following** | 13,539 | 11,314 | 12,435 | (3,063) | 11,043 | 8,898 | 4,214 | 1,119 | 8,228 |
| Gain (loss) on asset disposals | 3,768 | 797 | - | 5,943 | 1,082 | 104 | (2) | 52 | (46) |
| Minority interest | - | - | - | - | - | 203 | (69) | (663) | (247) |
| Reorganization (costs) recovery | (3,412) | - | - | (4,654) | - | - | 87 | 6,397 | - |
| **Income (loss) before income taxes** | 13,895 | 12,111 | 12,435 | (1,774) | 12,125 | 9,205 | 4,230 | 6,905 | 7,935 |
| **Income tax expense** | | | | | | | | | |
| Current | (287) | (482) | (393) | (4,621) | (1,462) | (843) | (642) | (392) | (343) |
| Future | (3,366) | (4,457) | (4,608) | 3,273 | (3,783) | (2,979) | (1,883) | (3,286) | (3,324) |
| Total income taxes | (3,653) | (4,939) | (5,001) | (1,348) | (5,245) | (3,822) | (2,525) | (3,678) | (3,667) |
| **Income before goodwill amortization** | 10,242 | 7,172 | 7,434 | (3,122) | 6,880 | 5,383 | 1,705 | 3,227 | 4,268 |
| Goodwill amortization net of income taxes | - | (990) | (1,017) | (945) | (393) | - | (150) | (345) | (320) |
| **Net income (loss) for the period** | $ 10,242 | $ 6,182 | $ 6,417 | $ (4,067) | $ 6,487 | $ 5,383 | $ 1,555 | $ 2,882 | $ 3,948 |
| **Book value per Common Share at year end (3)** | $ 6.89 | 6.17 | 5.52 | 4.91 | 5.65 | 3.58 | 2.81 | 2.65 | 2.21 |
| Basic Info per Common Share | | | | | | | | | |
| Based on net income | $ 0.93 | 0.50 | 0.51 | (0.56) | 0.63 | 0.57 | (0.01) | 0.16 | 0.30 |
| Based on income before goodwill | $ 0.93 | 0.60 | 0.62 | (0.46) | 0.68 | 0.57 | 0.01 | 0.21 | 0.34 |
| **Fully diluted earnings per Common Share based on net income** | $ 0.87 | 0.48 | 0.51 | (0.56) | 0.59 | 0.57 | (0.01) | 0.16 | 0.30 |
| Common Shares | | | | | | | | | |
| Outstanding at year end | 9,836 | 9,799 | 9,780 | 9,768 | 9,737 | 7,223 | 7,213 | 7,213 | 7,213 |
| Average for year | 9,822 | 9,788 | 9,780 | 9,763 | 7,698 | 7,223 | 7,213 | 7,213 | 7,213 |
| **Second Preference Shares** | | | | | | | | | |
| Dividends declared and paid | | | | | | | | | |
| Current | $ 1,017 | 1,195 | 1,324 | 1,243 | 1,260 | - | - | - | - |
| Arrears | $ 1,362 | 770 | - | - | - | - | - | - | - |
| Dividend per share | $ 11.90 | 9.83 | 6.62 | 6.22 | 6.30 | - | - | - | - |
| **C&D Preference Shares** | | | | | | | | | |
| Dividends declared and paid | $ 72 | 76 | 79 | 106 | 106 | 106 | 106 | 106 | 106 |
| Dividend per share | $ 0.275 | 0.275 | 0.275 | 0.275 | 0.275 | 0.275 | 0.275 | 0.275 | 0.275 |
| **Convertible Income Debenture Distribution paid** | N/A | N/A | N/A | 7 | 250 | 81 | 298 | 208 | 453 |

*(1) In 2002, the Company changed how it accounts for revenue. See note 2 to the financial statements. The change was accounted for retroactively and prior years and quarters were restated.*

*(2) Earnings before interest, taxes, depreciation and amortization, as disclosed on the consolidated statements of income. Operating EBITDA excludes litigation costs.*

*(3) Book value per common share is calculated before deducting undeclared dividends on preference shares.*

## Nine Year Financial Data

*(All amounts in thousands)*

| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | $ 1,088 | $ 588 | $ 1,106 | $ 7,474 | $ 359 | $ 6,567 | $ 271 | $ 1,806 | $ 1,402 |
| Accounts receivable | 35,001 | 29,250 | 30,643 | 29,955 | 30,776 | 23,379 | 22,460 | 22,876 | 21,344 |
| Inventories | 50,053 | 61,422 | 50,105 | 54,415 | 79,855 | 46,494 | 56,836 | 47,184 | 49,169 |
| Prepaid expenses | 1,600 | 1,124 | 932 | 1,836 | 1,234 | 826 | 1,297 | 957 | 1,456 |
| Future income taxes | 6,991 | 6,022 | 2,174 | 2,066 | 1,573 | 1,610 | 1,285 | 2,224 | 4,956 |
| Total current assets | 94,733 | 98,406 | 84,960 | 95,746 | 113,797 | 78,876 | 82,149 | 75,047 | 78,327 |
| Property, plant & equipment | 44,303 | 46,839 | 45,614 | 46,002 | 64,341 | 54,998 | 55,671 | 63,055 | 64,992 |
| Goodwill and deferred charges | 56,592 | 58,354 | 57,017 | 55,568 | 45,547 | 6,341 | 1,365 | 4,023 | 5,078 |
| Future income taxes | 5,037 | 7,337 | 13,470 | 16,505 | 13,504 | 16,681 | 19,672 | 20,530 | 21,174 |
| Other assets | 6,702 | 6,934 | 6,311 | 6,080 | 4,311 | 4,882 | 5,940 | 5,975 | 6,045 |
| **Total assets** | $ 207,367 | $ 217,870 | $ 207,372 | $ 219,901 | $ 241,500 | $ 161,778 | $ 164,797 | $ 168,630 | $ 175,616 |
| Bank loans | $ 5,960 | $ 17,184 | $ 2,337 | $ 16,456 | $ 36,497 | $ 13,965 | $ 18,226 | $ 11,310 | $ 14,683 |
| Accounts payable and accrued liabilities | 42,490 | 34,445 | 37,163 | 30,586 | 32,122 | 28,659 | 35,956 | 34,090 | 36,987 |
| Income taxes payable | - | 109 | - | 4,594 | 540 | 470 | 788 | 526 | 253 |
| Current portion of long-term liabilities | 15,919 | 15,871 | 13,227 | 5,226 | 2,658 | 760 | 5,506 | 10,150 | 3,711 |
| Total current liabilities | 64,369 | 67,609 | 52,727 | 56,862 | 71,817 | 43,854 | 60,476 | 56,076 | 55,634 |
| Long-term liabilities | 49,395 | 65,840 | 77,753 | 92,302 | 81,859 | 59,328 | 50,423 | 59,901 | 70,992 |
| Employee future benefits | 571 | 560 | 679 | 871 | 879 | 812 | 759 | 754 | 899 |
| Future income taxes | 4,004 | 2,055 | 762 | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | - | 979 | 910 | 247 |
| Shareholders' equity: | | | | | | | | | |
| Preference shareholders | 21,246 | 21,318 | 21,442 | 21,929 | 21,929 | 21,929 | 21,929 | 21,929 | 21,929 |
| Convertible subordinated debentures | - | - | - | - | 9,962 | 9,962 | 9,962 | 9,962 | 9,962 |
| Common shareholders | 67,782 | 60,488 | 54,009 | 47,937 | 55,054 | 25,893 | 20,269 | 19,098 | 15,953 |
| **Total liabilities and shareholders' equity** | $ 207,367 | $ 217,870 | $ 207,372 | $ 219,901 | $ 241,500 | $ 161,778 | $ 164,797 | $ 168,630 | $ 175,616 |

## Quarterly Financial Data

*(All amounts in thousands, except per share amounts)*

| | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|---|
| **Fiscal 2002 (i)** | | | | | | |
| Sales | $ | 89,571 | 71,487 | 77,692 | 85,708 | 324,458 |
| Operating EBITDA (ii) | $ | 9,837 | 4,049 | 6,167 | 8,338 | 28,391 |
| Income before tax | $ | 5,755 | 421 | 2,433 | 5,286 | 13,895 |
| Net income | $ | 3,411 | 289 | 1,375 | 5,167 | 10,242 |
| Basic earnings per Common Share (iii) (iv) | $ | 0.32 | 0.00 | 0.11 | 0.49 | 0.93 |

| | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|---|
| **Fiscal 2001 (i)** | | | | | | |
| Sales | $ | 84,811 | 68,029 | 74,253 | 72,101 | 299,194 |
| Operating EBITDA (ii) | $ | 9,255 | 4,676 | 6,396 | 7,305 | 27,632 |
| Income before tax | $ | 5,570 | 1,445 | 1,697 | 3,399 | 12,111 |
| Goodwill amortization, net of income tax | $ | (244) | (246) | (246) | (254) | (990) |
| Net income | $ | 3,039 | 791 | 746 | 1,606 | 6,182 |
| Basic earnings per Common Share (iii) | $ | 0.28 | 0.05 | 0.04 | 0.14 | 0.50 |

*(i) In 2002 the Company changed how it accounts for revenue. See note 2 to the financial statements. The change was accounted for retroactively and prior years and quarters were restated.*

*(ii) Earnings before interest, taxes, depreciation and amortization, as disclosed on the consolidated statements of income. Operating EBITDA excludes litigation costs.*

*(iii) Total for the year does not add to the sum of the quarters due to rounding.*

*(iv) Amounts in the fourth quarter and full year include a gain of $0.22 that relate to unusual items. See note 9 to the financial statements.*

# CORPORATE DIRECTORY

## Directors

(1) Executive Committee (2) Audit Committee (3) Human Resources & Corporate Governance Committee
(4) Environment & Safety Committee (5) Fisheries Compliance Committee

**C.R. Bell[4]**
**St. John's, NL**
**Director since 1991**
Chairman of the Bell Group of Companies, of St. John's, Newfoundland, which includes a distribution company, a 25-store retail furniture chain, real estate holdings, and investment management. Director of The International Grenfell Association and Salvation Army Advisory Board member.

**G.E. Bishop[4]**
**Hantsport, NS**
**Director since 1992**
President, Scotia Investments Limited, and Chairman and Chief Executive Officer of Minas Basin Pulp and Power Company Limited. Director of CKF Inc., Maritime Paper Products Limited, Crown Fibre Tube Inc., Armour Transportation Systems, and several other companies. Chairman of the Board of Governors of Acadia University, and Governor of Junior Achievement of Nova Scotia.

**H.E. Demone[1,4 (ex officio)]**
**Lunenburg, NS**
**Director since 1989**
President of High Liner Foods Incorporated since 1989, and President and Chief Executive Officer since 1992. Member and former Chairman of the Atlantic Canada Chapter of the Young Presidents' Organization, and a Director of Dover Industries Limited, and the Food & Consumer Products Manufacturers of Canada.

**R.P. Dexter, Q.C.[2]**
**Halifax, NS**
**Director since 1992**
Chairman and CEO of Maritime Travel Inc., operating 86 travel shops in Canada under the trade names "Maritime Travel", and "LeGrow's Travel". Partner of Stewart McKelvey Stirling Scales, and Director of Aliant Inc., CorporaTel, Empire Company Limited, The Maritime Life Assurance Company, Sobeys Inc., and Wajax Limited. Chairman of the Audit Committee.

**F.J. Dickson, Q.C.[1,2]**
**Truro, NS**
**Director since 2000**
Senior partner of Patterson Palmer, barristers and solicitors of Halifax, NS; Former director of Stone & Webster Canada Limited, Scotia Synfuels Limited, Yamaichi International (Canada) Ltd., and Air Canada. Mr. Dickson previously served as a director of National Sea Products Limited from 1984 to 1994.

**D.J. Hennigar[1,3]**
**Bedford, NS**
**Chairman of the Board**
**Director since 1984**
Chairman of Annapolis Group Inc., of Acadian Securities Inc., and of Extendicare Inc. Director of several other companies, including Scotia Investments Limited and Crown Life Insurance Company. Chairman of the International Oceans Institute of Canada, and a member of the Dalhousie University School of Business Advisory Committee. Mr. Hennigar is Chairman of the Executive Committee.

**F.B. Ladly[3]**
**Fallbrook, ON**
**Director since 1998**
Deputy Chairman of Extendicare Inc., a health care and financial services company based in Markham, Ontario, Vice Chairman of Crown Life Insurance Company and Director of UBS Bank (Canada), UBS Trust (Canada), and Knudsen Engineering Limited.

**J.T. MacQuarrie, Q.C.[3,4,5]**
**Halifax, NS**
**Director since 1985**
Senior Partner of Stewart McKelvey Stirling Scales. Director of Minas Basin Pulp & Power Co. Ltd., Extendicare Inc., and several other public and private corporations. Chairman of Environment & Safety Committee and Fisheries Compliance Committee.

**R.L. Pace[2]**
**Halifax, NS**
**Director since 1998**
President and CEO of The Pace Group Ltd., a private holding company. Chairman of Maritime Broadcasting System, owners and operators of 25 radio stations in the Maritimes. Director of Canadian National, Green Waste Systems Inc., MBS Realty Ltd., the Atlantic Salmon Federation, the Lester B. Pearson College of the Pacific, and the Asia Pacific Foundation of Canada.

**D.E. Read[1,3,5]**
**Halifax, NS**
**Director since 1985**
President, Read Group, and a Director of several private companies in Atlantic Canada. Member of the Executive Committee of the Dalhousie Medical Research Foundation, and former Vice Chairman of the Board of Regents of Mount Allison University. Chairman of Human Resources & Corporate Governance Committee.

**R.E. Shea[2]**
**Boston, MA**
**Director since 1982**
Chairman & President, Shea Financial Group Inc., and Director of Balcam & Shea Insurance Agency, Inc., Plaintree Systems Inc., American Manor Enterprises Inc., and Consultants and Risk Managers, Inc.

**D.R. Sobey[1]**
**Stellarton, NS**
**Director since 1984**
Chairman, Empire Company Limited, Director of Alliance Atlantis Communications Inc., Sobeys Inc., Toronto-Dominion Bank, Stora Enso, the World Wildlife Fund. Chair of the National Gallery of Canada, Governor of the Olympic Trust of Canada, past Chairman QEII Foundation, and a member of the Advisory Council, Queen's University.

**J.R. Winters, Q.C.[1,2]**
**Truro, NS**
**Director since 1997**
Counsel to Burchell MacDougall, Barristers & Solicitors of Truro, NS, and Chairman of Napwick Holdings Limited, a private holding company. Director of the Halifax International Airport Authority, Chairman of the Board of Regents of Mount Allison University, a member of the Advisory Boards of Inland Technologies Inc. and Oxford Frozen Foods Limited.

# MANAGEMENT & INVESTOR RELATIONS

(1) Management Committee

**Honourary Directors**
H.P. Connor
J.B. Estey
J.B. Morrow
W.O. Morrow
(Honourary Chairman)
M.J. Regan

**Officers and Canadian Management**
D.J. Hennigar
Chairman of the Board
H.E. Demone[(1)]
President and Chief Executive Officer
M.P. Marino[(1)]
Vice President, and Chief Operating Officer Canadian Operations
K.L. Nelson, CA[(1)]
Vice President, Corporate Services and Chief Financial Officer
P.W. Snow[(1)]
Vice President, Procurement
R.G. Whynacht[(1)]
Vice President, and Chief Operating Officer National Sea Products
C.E. Milton, LL.B.
Corporate Counsel, Secretary and Treasurer
G.W. LeBlanc, CA
Corporate Controller

**High Liner Foods (USA) Inc.**
R.C. Seban[(1)]
President and Chief Operating Officer
A. Christianson
Vice President, Operations
J.D. Coxwell
Vice President, Sales
J.K. McGinn, C.M.A.
Vice President, Finance
R. Kosciusko
Vice President, Human Resources

**Plants**
Nova Scotia: Lunenburg
Newfoundland: Arnold's Cove
New Hampshire: Portsmouth
New Jersey: Secaucus

**Subsidiary Companies and Divisions**
- High Liner Foods (USA) Incorporated
- National Sea Products
- Scotia Trawler Equipment
- Italian Village Foods

**Auditors**
Ernst & Young, LLP
Chartered Accountants

**Transfer Agent**
CIBC Mellon Trust Company of Canada

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Common Shares and Convertible Subordinated Debentures listed on The Toronto Stock Exchange
Trading Symbols:
Common Shares: HLF
Debentures: HLF.DB

**Annual General Meeting of Shareholders**
Thursday, May 1, 2003
11:00 a.m.
World Trade & Convention Centre
Halifax, Nova Scotia

**Consumer website:**
www.highliner.com

HIGH LINER FOODS
INCORPORATED

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